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DESIGN REVIEW UPDATE

KRISTINA BENSON
Portland State University

Portland is well known for its urban planning and smart growth approach to development. As part of its strategic planning process, the Design Overlay Zone was added to the planning code in the 1982. This review process was intended to combat the popular flat, imposing, and often windowless architectural design plaguing cities at street level (see Appendix III). Fighting hostile street facades, the design standards and review board were meant aid in encouraging more pedestrian oriented design and street activation. Since then, the Overlay Zone has evolved to include protecting valuable cultural, scenic and architectural resources. It aims to enhance infill development, to contextually address buildings within the existing neighborhood fabric, and to encourage transit orientated development within the City of Portland. These methods and other aspects of the planning code have worked together to preserve and enhance much of Portland's architectural legacy and values.

Today, the city is renowned for its immense walkability, excellent city planning and unique local character. Tourist and residents alike are captivated by innovative designs and adaptive re-use of historic architecture. Thoughtful planning strategies, design guidelines, and a public review process has created a city often ranked on top list for multi-module transit, innovation, destination travel and quality of life by publications such as the American Community Survey, CNN Money, Travel + Leisure

Magazine, and Forbes, respectively. Unfortunately, not all of Portland's ranking are as impression, in June Hoyt Advisory Services ranked the city 21 out of 50 for difficult cities to develop using factors such as regulation and land availability to calculate its results.

Overtime, the Design Review process has become less organized and expedient, often sending a confusing message to applicants, creating delays in scheduling reviews, and repeating seemingly resolved issues during a later phases of the review process. These inconveniences increase project costs, often reduce the projects potential value, and increase the tension between residents and developers. With these systemic issues in mind, the Bureau of Planning and Sustainability (BPS) and the Bureau of Development Services (BDS) commissioned Walker-Macy to document, review and prescribe processes for design overlay zoning. This report, named Design Overlay Zone Assessment or DOZA, has already been unanimously approved by the City Council this past April.¹

This article reviews the current growth projections for the City of Portland and planning strategies to manage it, current zoning and design overlay review, recent design overlay projects and outcomes, and lastly, the recommendations and implementation progress for the DOZA report.

Kristina Benson is a Master of Real Estate Development candidate and has been awarded the Center for Real Estate Fellowship. Any errors or omissions are the author's responsibility. Any opinions are those of the author solely and do not represent the opinion of any other person or entity

A GROWING PORTLAND

Looking around Portland it's hard to miss the sea of cranes, rising rents, and ambitious infrastructure projects. The state and local economy continue to grow, nearing the ninth year of a bull cycle. In 2016, Oregon's gross domestic product grew by 3.3 percent, second highest rate in the nation. Additionally, according to the Bureau of Economic Analysis, 2016 marked the eighth time since 1998 that Oregon ranked in the nation's top five for GDP growth.² At the local level, Portland's unemployment rate dropped to a low of 3.5 percent in June, hitting what economist Tom Potiowsky called the economic "sweet spot".³

Also growing is Portland's population. Since 2000 it has increased by a dramatic 7.3 percent, bringing the total population to approximately 640,000 people.⁴ This unprecedented growth will continue as Walker-Macy expects Portland to add another 123,000 households by 2035. These two factors will continue to spur real estate development projects.

For permits to be approved, developers must follow the specifications laid out in the city zoning code and master plan. Last December, the City Council adopted the 2035 Comprehensive Plan that calls for intensifying growth in neighborhood centers as part of its smart growth strategy. By January 1, 2018, the corresponding changes and updates to the zoning map, zoning code, and other documents needed to empower the city's vision will take effect.

Neighborhood Centers will be a key factor in absorbing Portland's expected population growth by increasing the planned density and zoned activities. In Appendix I, the Urban Design Framework Plan shows the network of commercial nodes, open space, transportation corridors, and greenway belts that link the city. As important cultural and economic nuclei, Neighborhood Centers often require additional review as part of planned districts and overlay zones. Consequently, a disproportionate amount of construction is funneled into the design review process. Therefore, having a understandable and efficiently working design overlay zoning process is key for the economic productivity that the real estate industry brings to Portland.

THE ZONING CODE

The tools created by the zoning code and comprehensive plan work together to provide a skeletal framework that encourages community principles such as walkability, diversity, and inclusion are seamlessly integrated into the existing urban fabric. Portland's code has three structured categories a site might fall into: base zones, overlay zones, and plan districts.

All sites have a base zone, which sets basic parameters about site use, floor-area-ratios (FAR), building height, and others. To help illustrate their purpose, below are three summaries of base code descriptions:

- **Residential 1,000 (R1)** - Medium density multi-dwelling zoning, 43 units/acre up to 65 with bonuses, typically 1-4 stories, near neighborhood and district collector streets or commercial areas and transit⁵
- **Storefront Commercial (CS)** - Commercial areas with storefront character (sidewalk orientation, pedestrian friendly), full range of retail, service, business, local and regional market areas
- **General Employment 1 (IG1)** - Mostly smaller lots, high building coverages, and close to street

THE ZONING CODE

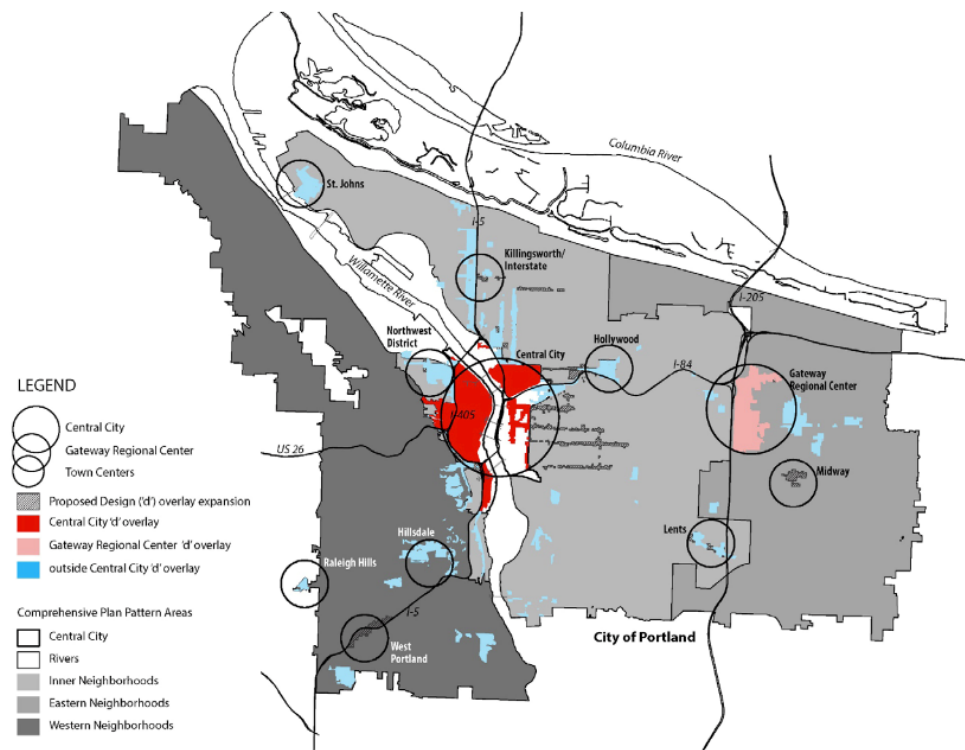
In addition to base zone requirements, some sites will fall into plan districts. A planned district allows for a specific area of the city to tailor the zoning code to better reflect the needs of the neighborhood and local characteristics the community wants to foster. For example, the following summaries highlight the principals behind planned districts:

- **Central City Planned District (CC)** - Eastside Central City - Encourages designers to capitalize on the district's character, industrial heritage and strengthen pedestrian friendly retail ⁶
- **St. Johns Planned District (SJ)** - Creates an urban level of mixed-use buildings to strengthen its role as a commercial center, and to emphasize pedestrian and transit-oriented design in the Neighborhood Center⁷
- **Northwest Plan District (NP)** - Promotes housing and mix-use development, discourages auto-orientated design, enhances pedestrian experiences, supports various levels of development near the streetcar alignment ⁸

Lastly, overlay zones address a specific subject that might be in multiple areas throughout the city. Below are three summaries of overlay zone descriptions:

- **Design (d) Overlay Zone** - Requires a Type II or Type III design review to insure new infill construction enhances the neighborhood aesthetic and community standards ⁹
- **Scenic Resource Zone (s)** - Establishes hight limits and view corridors to protect significant scenic resources to enhance Portland's appearance ¹⁰
- **Historic Resource Overlay Zone** - Protects and preserves significant parts of the region's heritage, new and old buildings within a historic district require resource review

Figure 1: Design Overlay Areas and Proposed Expansion



THE ZONING CODE

The Design Overlay Zone triggers the majority of cases being reviewed by the Design Commission. The overlay zone guidelines are created as part of a community planning process within the design districts to ensure certain types of infill development will be compatible with the neighborhood.

Figure 1 illustrates the current Design Overlay areas and its projected expansion along civic corridors. Future design overlay areas are hatched, areas in blue offer a two track design review process (Type II or Type III), and tones of red highlight areas that require a discretionary (Type III Review in Portland’s Central City design area as red, and the Gateway area as pink). These commercial corridors and centers are expected to absorb up to 80 percent of Portland’s projected growth and thus warrant additional oversight. Additionally, areas cover a large part of Portland’s land area as well. Outside of the core Central City and Gateway districts, the Design Overlay Zone covers approximately 38 percent of city acreage, with an upcoming 11 percent increase in coverage into proposed expansion areas, base on calculations from Walker-Macy.

The Portland Zoning Code and Master Plan create a multilayered structure meant to support and protect the city’s resources. Portland’s long tradition of design review has helped enhance the public realm in the central city by guiding development in context-sensitive areas. Yet, as an increasing number of projects are driven towards Type II and Type III design reviews, the city may be to have placed an unintentional governor on construction.

THE DESIGN REVIEW PROCESS

In compliance with state law, Portland offers a two track approval process: the discretionary review track, Type III or the non-discretionary track, Type II, also referenced as the clear and objective track. Projects within the city center and gateway districts must follow the discretionary review track, which requires a Type III Land Use review. During either a Type II Land Use Review, completed by staff, or a Type III Land Use Review, completed by the Design Commission, the reviewing body determines if the proposal fulfills the objectives of the design guidelines.

Table 1: Two Track System of Land Use Review

Discretionary	Clear and Objective
Subjective; requires judgment and flexibility	Objective; doesn't not require judgment; limits flexibility
Land Use Review	Building Permit
Design Guidelines	Design standards in code
Public comment and potential hearing with Design Commission	Limited public involvement
Required in Central City and Gateway	Potential option everywhere else

Source: Walker Macy Design Overlay Assessment

THE DESIGN REVIEW PROCESS

The Discretionary Review Track

The design guidelines used in the discretionary review period are a separate document from the Zoning Code and updated through their own process. The Central City and Gateway areas have a full set of fundamental guidelines, while some areas have additional district-specific guidelines to further enhance design details. Neighborhoods without district-specific guidelines are covered under the Community Design Guidelines.

These qualitative approval criteria provide more flexibility in how planning and design goals are achieved than the alternative objective and clear standards. These goals include complex design themes that often emphasize aesthetic and functional values. For example, a few district guidelines explore the multi-faceted meaning of “quality and permanence” by recommending that “building materials should not only be long-lasting but should have interesting textures and patterns.”¹¹ Others may address permanence as a building's ability to respond to the context, composition, and visual interest of a building's design. The figure on this page shows how a building has successfully integrated this goal by mirroring architectural elements from the surrounding streetscape, thus reflecting the wider neighborhood context.



This building's style and proportions contrast with the adjacent homes, but the roof form, height, and materials are more consistent with its wider context.

The Community Design Standards

Found in the city's zoning code (33.218) these standards are prescriptive criteria for development projects that provide a clear and objective track with no additional review. Any project that can not meet these standards must go through a discretionary review. Due to the longevity and scale of commercial buildings, a key tool in supporting the comprehensive plan is a design review process. In some cases, having design review or the guidelines does not correlate to better design, due to ambiguity as well as the interoperation of the guidelines—without providing enough direction, examples, suggestions for interoperation.

THE COMMISSION

The city's Design Commission uses the tools provided by the guidelines, standards, and zoning code to guide projects in better reflecting the city's vision. This volunteer commission, provides leadership and expertise on urban design and architecture. The Commission's goals are to provide public dialog, architectural enhancement, and cultural identity for the neighborhoods and districts effected by the Design Overlay Zone. The commission is composed of “members representing different areas in development and the public realm. To ensure a variety of viewpoints, no more than two members may be appointed from any single area of expertise. These areas include design, engineering, financing, constructions, or property management, and a minimum of one representative from regional arts and culture council, and one representing the public-at-large must be represented.”¹²

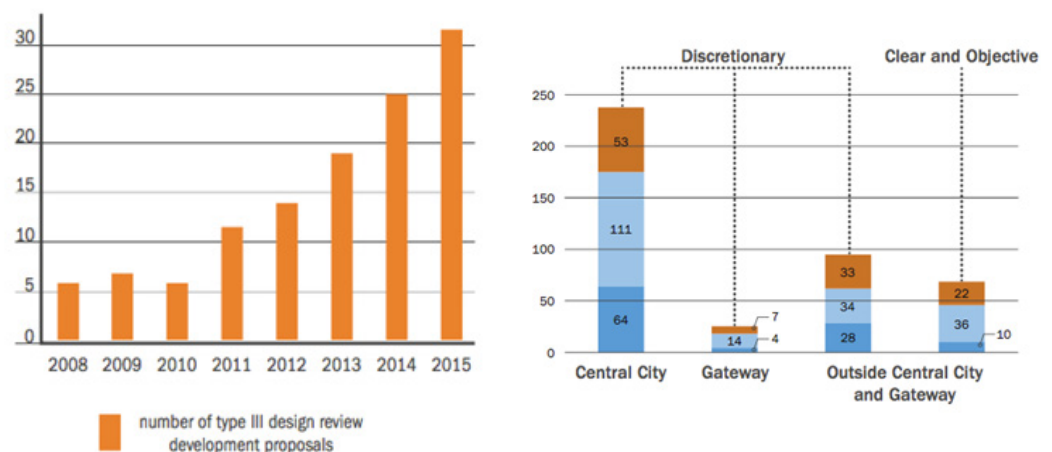
The seven member team, none of whom may hold public elective office, work diligently on behalf of the public. In 2013, the number of meetings averaged once per month lasting around four hours. In 2014, the Commission added an additional monthly meeting

THE COMMISSION

and often needed to increase their duration, with some meetings as long as six hours.¹³ Presently, a third monthly meeting has often been required. By adding this additional hearing to the calendar, the commission strives to help projects move quickly through the project pipeline.¹⁴ "Each meeting consists of four or more hearings, which last between one and three hours, depending on the size of the project. The meetings start at 1:30 p.m. and can last well into the night."¹⁵

Figure 2 illustrates the CO permits for projects within Design Overlay Zones for multifamily dwelling projects. These numbers do not include permits issued to historic landmarks or historic districts. (DOZA, p 6) Overall, 23 percent of projects require a discretionary design review with more the half of those being projects in the Central City or Gateway that must complete the discretionary review process.

Figure 2



Through this process, it can take months to get approved. This demand, growth is expected to continue, especially as the 2035 Compressive Plan projects unprecedented growth within mix-use town centers, most of which are in "d" zones (DOZA, p 11).

According to state law, a project has to navigate the review process within 120 days of submittal. A project's first hearing has to take place within 51 days of submittal. But architects can sign waivers releasing the city from the state obligation. "Every project gets a 120-day waiver," Cliffe said. "We always sign the waiver." By signing the waiver, architects can return before the Design Commission if it denies a project proposal at its first appearance. The waiver also protects appeal rights. If architects do not sign the waiver, then they cannot provide new or changed information later in the process. Also, if the project were denied, the team would have to start the process over."¹⁶

As Portland and the economy grows, the Design Commission is responsible for reviewing more and more projects with the same resources. Though the review board experiences the same cycles felt elsewhere in the real estate industry, the city's growth often disproportionally occurs within its design overlay areas.

Due to zoning goals and neighborhood planning strategies, "the Type III design review process adds significant time and costs to projects. The amount of time spent in making changes to plans often greatly exceeds what is normally budgeted into design fees for securing entitlements," according to DOZA. Fees for the review process are dependent on a project's size and range from a minimum of \$5,250 to a maximum of \$27,000. Furthermore, the preliminary design advise review (DAR) can add an additional \$2,520 of costs to a project.¹⁷

CHALLENGES

Many projects pushing the envelope forward involve integrating innovative ideas and designs in engineering and architecture. Projects pushing these boundaries can be challenging in and of themselves but they face additional barriers during Design Review.

During an interview, Architect Bob Schatz expressed his frustration with the lack of constancy in defining building material quality, permanence, and response to context. A project in his neighborhood passed through the Design Review Board with a set of generic “book plans” even though low-grade building materials were specified. The design reflected a local cottage house style. Meanwhile, other projects in the same neighborhood experienced higher levels of scrutiny and failed while exceeding most building construction standards by using Green Building principals. Appendix V illustrates the example projects. The subjective nature and complex design themes that the discretionary review process entails is especially challenging for development projects when terms aren’t clearly defined or enforced.

Problems also arise when the community has not been effectively engaged. Developers need to seek conversations about the project with the members of the public. City staff need to help educate residents about the review process and scope. Currently, outreach is often done by mail or sign notification and at times the public testifies on topics outside the Commission’s control, like parking requirements, or density allowances. Helping fix the notification and educational aspect about the process, helps residents anticipate change and provide input.

For example, the Ankeny Apartments between Sandy Boulevard and 11th Avenue at 1122 SE Ankeny Street can attest to both sides of this equation. The L-shaped building totals 16 apartment unit with ground-floor retail. Throughout its review process it has received criticism from its neighbors about privacy while receiving praise from City Council for attempting the net-zero energy challenge. The Commission appreciated that the construction materials were of the highest quality, including highly insulated walls and roof, triple-pane passive-house windows, and, originally, solar panels. Neighbors worried about light penetration and privacy due to building height differences, damages to their homes during the construction process, and one neighbor even went so far as to call it “elder abuse” and claimed the project would destabilize the area creating affordable housing issues and a “plague of blight.”

The issues were ultimately tipped toward resolution by city council, who on August 9, overturned the Design Commission in an appeals case. This lengthy process took over 18 months and cost the developer, Landon Crowell, \$160,000 in additional city fees, or an average of \$9,411 per unit.¹⁷

Leading up to council’s decision, the developer to tried to solve the problems with the neighborhood by hosting a community outreach meeting. During this period of mediation, they established a series of design compromises with the neighbors in attendance. Changes and compromises reached throughout the process included setback adjustments, exterior building materials, and height adjustments. The building changed from zero-lot line to 18 inch to 3 feet set backs on 3 sides. They also added wood siding and reduced the building size from 26 units to 18 units. Lastly, to aid the appeals process, the development team sweetened the deal by adding construction mitigation review and use an auger system for pile construction. Before finding this resolution Landon Crowell had five Commission hearings and four City Council hearings.

CHALLENGES

Occasionally the Zoning Code and Overlay Zones create a more self-directed conflict of interest that creates economic impacts for developers. For example, historic overlay zones in the middle of districts slated for densification often result in opposing goals: historic building preservation and new construction growth. As maximum allowable heights rise above the existing buildings new construction will want to maximize its value. The Design Review Commission can have a big effect on the size and scope of construction by limiting the allowable FAR and building heights. DOZA reports, "Many people make investments in property based on the entitlements spelled out in the Zoning Code. Indeed, tax assessors even determine valuation in part by allowable potential set forth in zoning codes. Long-range planning must be the process for establishing basic zoning entitlements." (For instance, the Grand Belmont on 514 SW Belmont Street dramatically felt these consequences. Originally, the building was designed with 214 units, rooftop common room, with terrace, ground-floor retail, 102 parking spaces, 23 stories, and a towering height of 240 feet. But due to concerns brought forth by the Design Review Commission, it was downsized to 121 units, 7 stories, 14 parking spaces, 81 feet of height, but also added 184 bicycle spaces, before it was finally approved. The Grand Belmont's first architect, Vallaster Corp, submitted many versions of a taller tower, including during the Design Advice Requests (DAR) process. Finally, Ankrom Mosian, who was first contracted as a supportive resource, submitted a severely reduced final design. Ankrom Mosian's previous experience with Portland zoning code and success with the historic overlay zoning commission proved to be essential to the building's approval. The smaller project was unanimously approved and construction is expected to be complete late 2018.¹⁸

Working within Portland's design review process can be confusing to the public and professionals alike. "If I have a client that has gone through the process, they know what to expect," said Leslie Cliffe, an associate principal at Bora Architects. "If I have an out-of-state developer, in those cases, they are super surprised at the level of input the city gets." ¹⁹ All the DARs, additional reviews, and appeals add up in fees, time, market opportunity cost. When asked about working with the Design Review Commission, Stephanie Fitzhugh, a project manager at DiLoreto Architecture, said "Long waits to appear before the city's commissions are adding to delays and increased project costs. "Everybody is feeling it; everyone is frustrated," she said. "Basically, it comes down to: Does the city really want to prevent people from building their projects?"

Supporters of the Commission note the importance of connecting with the community throughout the development process. During an interview with Mark Edlen, of Gerding Edlen, he emphasized the importance of "getting out in front of the community" by hosting public presentations of the project and letting the community get a first look of the design. Knowing about a project before the construction fences go up helps pave the way for more successful community support.

Furthermore, the community and neighborhood associations want to be a productive part of the process. Flint Chatto, co-founder of the Division Design Initiative wants to help more actively engage the community. The group first focused on the Division Street improvements. According to Chatto, "City officials lack the tools to evaluate the context of a project." Neighborhood groups like the Division Design Initiative are truly concerned about style, context, standards and project transparency. "People need to know how they can make constructive comments," Hinshaw said. "That kind of information isn't

CHALLENGES

broadcast widely enough.” Hinshaw also wants to encourage those small funky add-ons without a design review process, but that creates conflict for streets like Division where most the work is this small scale. The group is mixed on whether smaller projects should be subjected to the review process, if small project review should be eliminated altogether, or if an additional design commissions should be formed. There is a lot of “support for forming a second design commission now,” Chatto said. “There is a big bottleneck of projects. Many people have suggested one [commission] per quadrant. Even having one to two additional commissions would be big.”²⁰

After reviewing projects through the city, DOZA found that passing through the design review process does not guarantee that a project is a higher quality project. Concordantly, neither does building outside the Design Overlay Zone limit a projects ability to become a Portland success. There is a cross spectrum support for good design throughout Portland but there are many signs of a poorly functioning review system, yet not a wholly broken one. Appendix IV. has a table with projects under consideration from the design review board from the 1st quarter 2017.

DOZA RECOMMENDATIONS

The city contracted with Seattle-based Walker Macy to research the direction they should take to improve the design review process. Over the years the purpose statement of the Overlay Zone has evolved from a tool focusing on preservation and compatibility towards supporting transition and anticipated growth. As the purpose evolves so should the structure of the review process. The recommendations of Walker Macy include adjusting the review thresholds to provide higher review standards for bigger projects and lower review standards for smaller projects, improving public notices, and possibly adding additional design review commissions (currently there’s just one). They compared Portland’s review process with that of other cities with similar structures and found that they reduced delays by limiting their scope, having a greater reliance on staff to review and manage the process details, and by strictly managing discussion during meetings to expeditious reviews. Walker Macy published their report in April. This summer, the City Council approved their recommendations. The DOZA assessment looked at the current review process and overlay zones, examined peer cities, interviewed people and organization, and looked at projects that have been built. The following is a summary of their report and comments about implementation:

The DOZA report divides its recommendations in to three types of changes: administrative, tools, and process. For administrative changes, they recommend having more staff, improving public notices, and developing new tools and training for the commissioners and staffers. These types of changes are typically easier to initiate because they don’t require any changes to city ordinances. Already, the staff has updated their notice procedures by including renters in future mailings. Changes in the tools category include updating the City Standards and Guidelines. Over decades, these documents have been tweaked and amended instead of formally reviewing and revising the documents. Lastly, items that address process include realigning the Commission’s roll, purpose statement and procedural steps, and making it easier for neighborhood associations to get involved by hosting public workshops.

Any changes made need to embody the main goals of the Design Review Commission: to support high quality design development projects with an efficient and effective process, to ensure the applicants and public have access, understanding and engagement opportunities, and to balance the understanding of context with a clear predictable system.

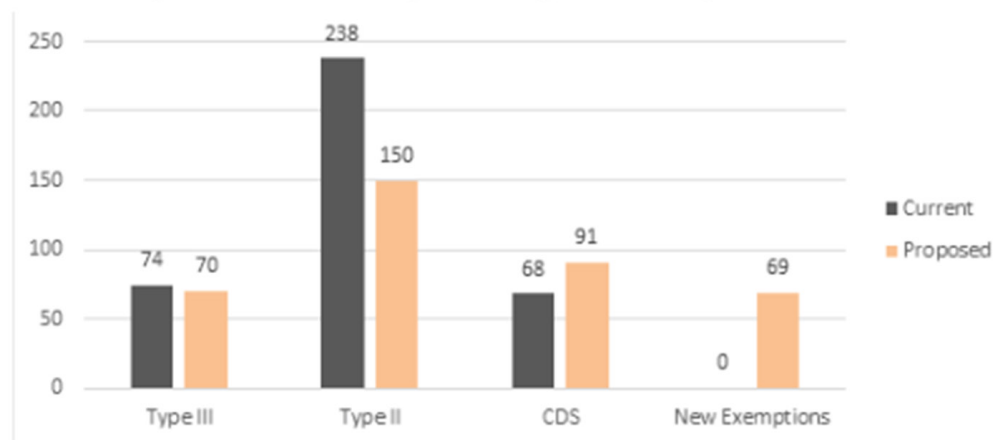
DOZA RECOMMENDATIONS

First, DOZA recommends adjusting the design review thresholds. This adjustment would be based on project size so that smaller projects would receive a smaller review requirement than large scale development. Figure 3, on the following page, shows how a new review threshold could change the work load of the Design Review Commission. Restructuring thresholds based on geography and within a tiered approach that factors in the magnitude of change would benefit small businesses and properties by making building upgrades simpler without the added time and expense of review.

Figure 3: 2013-2015 Change in Review Type Based on Proposed Threshold Revisions

STAGE	TOTAL		NET CHANGE
	Current	Proposed	Number of Cases
Type III	74	70	-4
Type II	238	152	-86
CDS	68	91	23
New Exemptions	0	67	-67
Total	380	380	New Total # of Cases: 313

Figure 3.5: 2013-2015 Change in Review Type Based on Proposed Thresholds



Once the threshold is revised, a few changes should be made within the "d" overlay zone itself. This includes consolidating, simplifying and revising the community design standards, and the design guidelines. The Community Design Standards for the clear and objective track are not succeeding in producing well-designed, contextually responsive buildings.

Many standards have not been updated since the late 1990s. Furthermore, the city has experience significant changes since then, including views on how design can impact the urban environment. Additionally, many of the design guidelines are outdated and create complex recommendations that slow down the review system, add delays, and sometimes inhibit better design solutions.

DOZA RECOMMENDATIONS

The three tenets of design, respond to context, evaluate the public realm, and expand “quality and permanence,” should guide the rewriting process to successfully achieve these goals. For example, the ground floor of a building greatly impacts the character of public spaces. Therefore, the expansion of the active ground floor use definition and clarification should include more examples and types of appropriate engagement. Streets that have little or no activity often have ground floor residential but lack the appropriate transitional spaces between public and private space. Additional activity enhancing design features that can ease this transition could include porches, raised stoops or setbacks in semi-public spaces. Other clear and objective examples include, addressing the relationship between the sidewalk and facade, addressing pedestrian access and circulation, and requesting ground level elevations and sections at a scale that helps determine appropriateness.

The Design Commission is a key element of the regulatory review power for the City of Portland but its review process has been slowed down not only by the number of projects but a lack of organization. Updating the purpose statement, creating a new charter to address both regulatory authority and limitations of the role and responsibilities of the commissioners, and increasing training for the both the Commission and staff will help the commission fulfill its duties.

A new charter should define the charge of the Design Commission and staff related to its authority and reviews. This includes examining the role and responsibilities of members, authority and limitations of the Commission, public outreach, improvements to events like annual retreats, refreshers, and how to unify the direction given to applicants. Additionally, part of the recommendation is to change how the meetings themselves are managed: keep discussion times on track, focus on applying adopted design guidelines, and limiting a project review to 90 minutes. Furthermore, an important piece of the Design Commission is having a well-prepared staff. Regular staff training should ensure that the guidelines and their subsequent applications are clear. This includes better on-going coordination outside of individual projects and quarterly meetings regarding long-term planning goals with Bureau of Planning and Sustainability.

To better aid developers seeking design advice, re-organize the city’s review process to correspond to a project’s typical design process. The Design Review Commission and staff should use the revised timeline to help avoid discussing specific details too early. And once an issue is resolved during one phase, it should not be revisited in later meetings. Additionally, staff should establish a follow-up process where construction documentation and on-site checks are completed to ensure follow-through. Table 2, contains a concept of new submittal stages.

Establishing a citizen academy would aid in more public outreach and educational opportunities for community members and applicants alike. The City could sponsor seminars, biannually throughout the city. Additionally, they could publish a glossary of terms, collapse the tools into a few sets with similar structures, and use clear graphical explanations of the process. These changes will help encourage positive interactions to uphold a sense of communal responsibility for designing and building the city, and create attitudes of discourse while working together to create better places.

DOZA RECOMMENDATIONS

Table 2: Concept of New Submittal States for Design Review



Example of a schematic design sketch
Image: Ankrom Moisan Architects, Inc.

STAGE	SUBJECT	SUBMITTALS
Pre-App (with staff)	Pre-design	<ul style="list-style-type: none"> • Site & Program • Issues Identification • Services/Utilities
DAR (see note; with Design Commission)	Early Schematic Design	<ul style="list-style-type: none"> • Context Analysis • Initial Concepts • Configuration • Massing • Overall Site Plan
First Review (with Design Commission)	End of Schematic Design	<ul style="list-style-type: none"> • Concept • Elevations • Ground Level • Public Spaces • Public Involvement Update
Decision Review (if necessary, with Design Commission)	End of Design Development	<ul style="list-style-type: none"> • Complete Design • Refined Design • Materials • Details • Exterior Lighting
Building Permit (with staff)	Construction Documents	<ul style="list-style-type: none"> • CDs

Figure 3.7 Design process phases aligned with submittal items complementary to each.

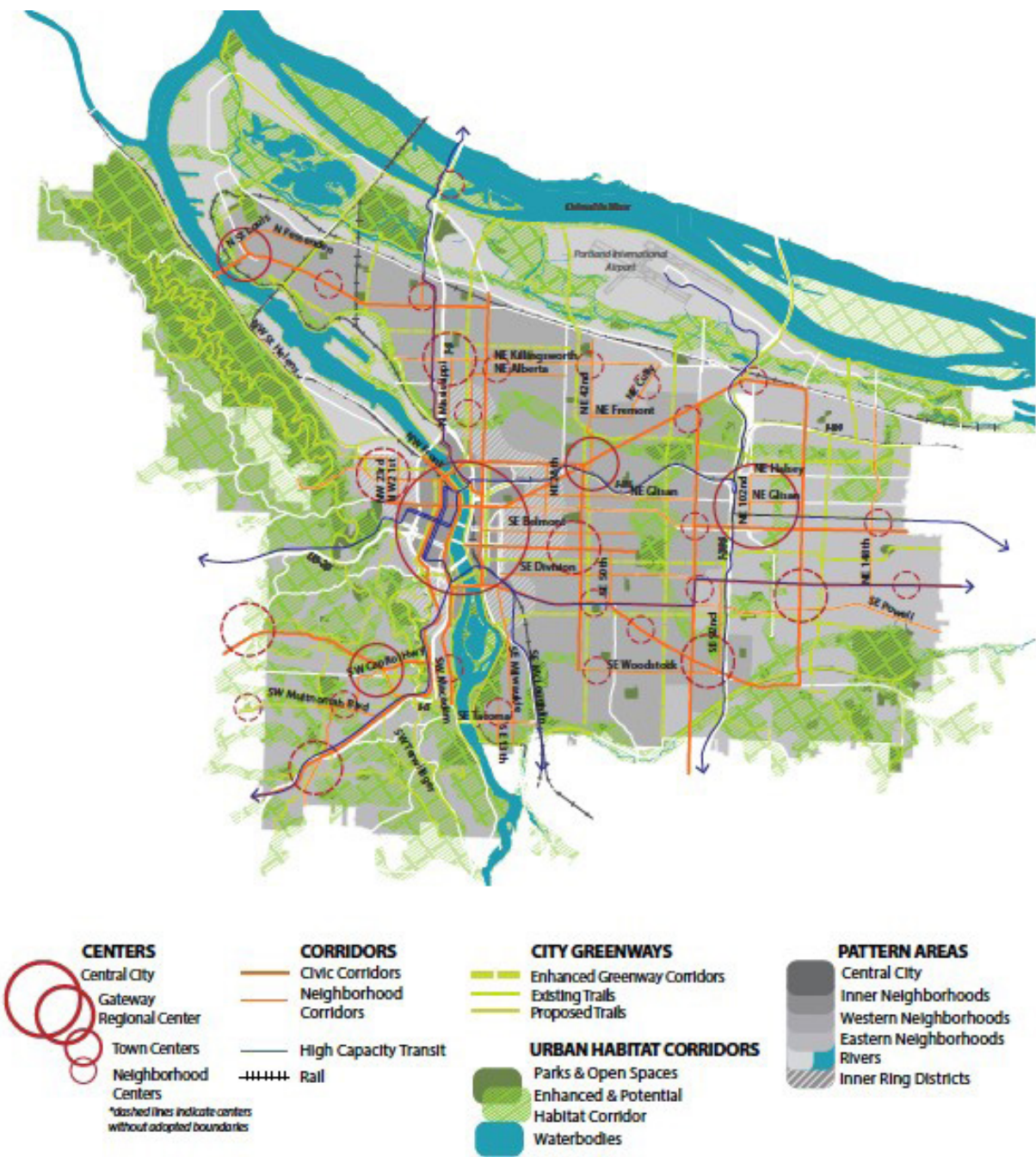
Note: for projects over a certain size or geographic location, a DAR would be required (see Recommendation 3C).

Lastly, the city should monitor and evaluate the effects of the enacted recommendations over a five year period while keeping clear documentation of the changes and impacts. During this phase, if there remains a backlog of projects, the city should consider a possible second commission.

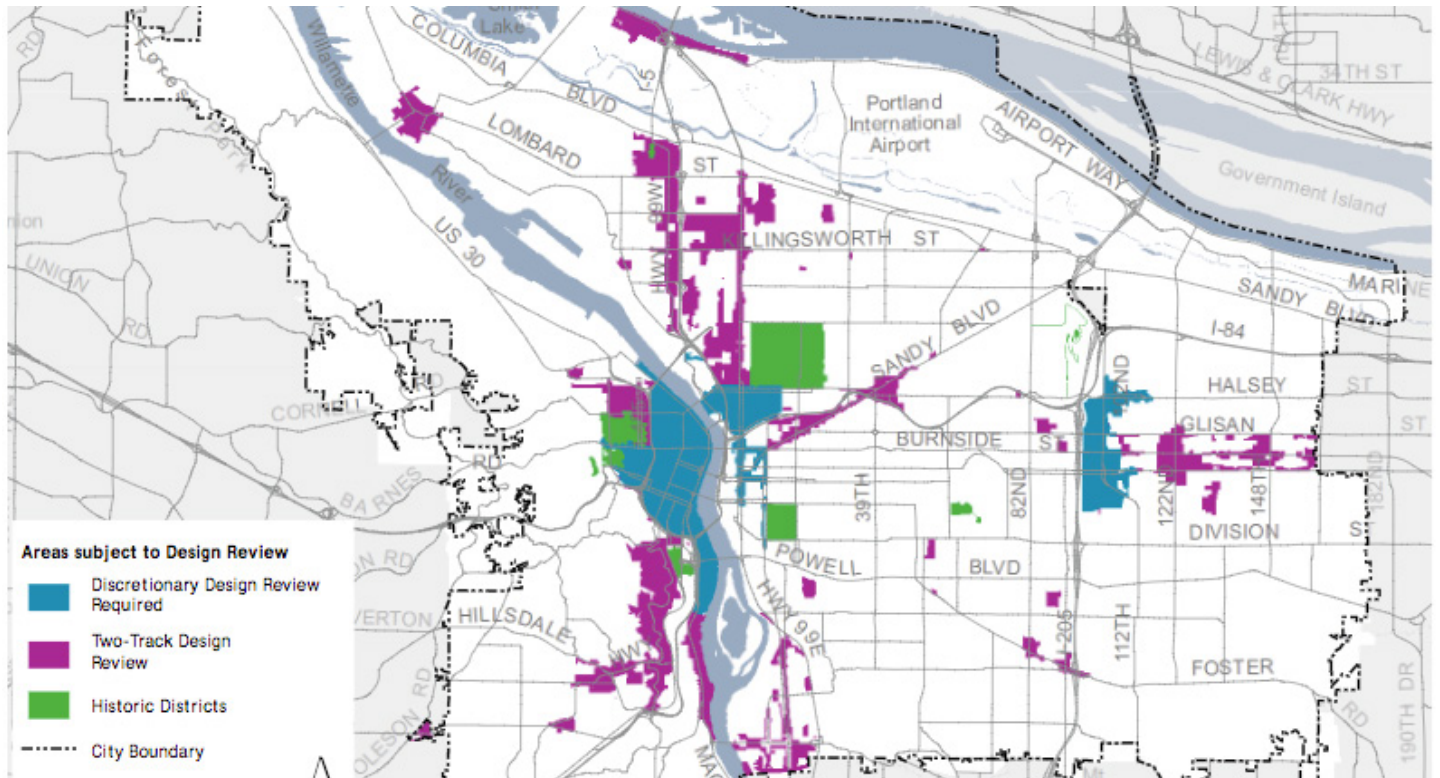
Now that DOZA assessment has been approved the next steps for the city will be revisioning documents like City Standards that need to be changed through the city ordinances starting with a discussion draft will be released in November 2017. Comments will be integrated into the next draft that is set for release in February 2018. Then the Planning and Sustainability Commission will hold hearings on the proposed draft and integrate the second round of changes. When complete, final draft should be ready to go before city council by next summer, where they will vote on the draft and any amendments. Thirty days after its approval, the final set of rule to take effect. The changes to the standards will be voted on by the BPS Commission and the guidelines will be voted on by the Design Commission. ²¹

Hopefully with these changes the Design Review Commission will be better able to fulfill their purpose. (An outline of these recommendations can be found at Appendix VI: Recommendations Outline)

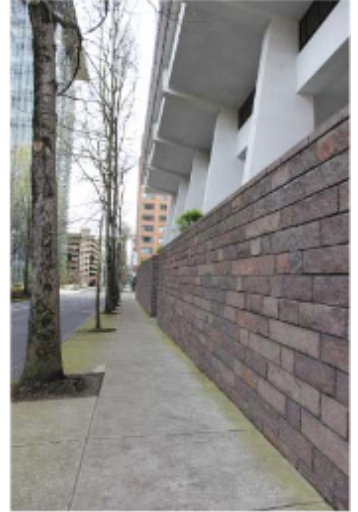
APPENDIX I: URBAN DESIGN FRAMEWORK



APPENDIX II: CURRENT DESIGN REVIEW AREA

















APPENDIX III: EXAMPLES OF HOSTILE GROUND-FLOOR DESIGN



APPENDIX IV: EXAMPLES OF SUCCESSFUL ACTIVE GROUND-FLOOR DESIGN



APPENDIX V: SELECTED DESIGN REVIEWED PROJECTS

Project	Address	Estimated Times Reviewed	Date Approved	Score	Story	FAIR	Type III	Arch	Dir.	Other
11th & Adler	 619 SW 11th Avenue	2	Feb 16, 2017	220 total rooms, 150' height with lobby, restaurant and lounge, meeting rooms, & fitness center, no parking, 14 long term bike, 17 units luxury apt, ground-floor retail 5,300 sf, net-zero multi unit (14 in portland)	15	7.1.1	Type III	SEHA (Jeff Rubens)	Mortenson	Pictured in 1st version, staff report did not recommend approval, lot of sidewalk level, and design concerns, 311 page review
Ackery Apartments	 1122 SE Arkway Street	8+	TBD		6		Type III	YOH Architects	Landon Crowell	City Staff had recommended to pass but was voted no, DC concerned with size and bulk, net-zero (efforts?), nearness to property line, fit with neighborhood, lot of public comments, day light concerns, residents concerned about height, dog park, carport, etc. etc. etc. made changes to design, but still made the building taller, net-zero, 26 units, to 18, Jan 15, staff/committee confirming recommendations, and approved.
Mixed Use	 SW 16th Avenue and Burnside		Apr 20, 2017	138 unit res.			Type III	Ancom Midland Architects		DC approved with conditions, relocated garage door 10', receive vent pipes, many permits and discussions about retail, sidewalk widths, and dark walls
Overton 15	 1440 NW Overton St			66 unit res, 7.3 retail & ground parking			Type III	Coal Architects		
The Grand Belmont	 514 SE Belmont St	4+	Dec 12, 2016	131 units w/terrace, 3 ground retail (6,000 sq ft) parking & 184 bicycles, 81' height, originally planned as a 23-story tower, reduced to 7-story building	7	5.73.1	Type II - Historic Resource Review	Wilder-Cor 103 as lower Ancom Midland when smaller	Urban Asset Advisors (Seth Henderson)	Historic Landmarks Commission first review of 15+ stories not passed, "next" anticipated 4-mo review period, and 16 mo construction target completion 2018
Modern Buckman	 12th ave and Belmont St	2+		189 res units, ground-floor retail, 85 ground floor parking/loading	7		Type III	Leah Architects	Mil Creek Residential Trust	Cosmetic changes, design refinement, increased stack from 10' to 22' form neighbor historic bldg.
Modern Clocas	 NW 14th Ave & Clocas & Hoyt	2+		291 units res, 3rd block, mixed use,	12		Type III	SEHA	Mil Creek Residential Trust	staff recommended parking modification (increased on property, ground-floor plaza activation, material board samples,
Mixed Income Housing Infill - 1440 SW Taylor	 SW Park & Columbia		Feb 16, 2017	73 res units (100% as Air (80%) 11 parking, 111 bicycles, quarter lot			Type III	QSD Architects	BMP Fluid Estate	used FAIR transfer, unanimous approval
Taylor apartments	 1440 SW Taylor Street		Feb 16, 2017	70' height, 107 units res, 5 live-work, 1,228 sf retail, 27 parking, 163 bicycles	7		Type III	Leah Architects	Shelley Holdings	"excellent example of infill development"
	 1500 SW Taylor	2+		380 block, 120 tall, 146 units, 20% AP with MULT, 1,250 sf retail, res amenities fitness, library, lounge, community room, club room, and roof deck 80 parking, (2levels underground) 8 bike rooms with 219 total bikes	11		Type III	SEHA Architects	Misaki Group, Tring 3 Investments, Langley Investment Properties	Conditional approval, retail panels on a and is to change to brick, balcony red on-balcon, deeper noosa
1638 W Burnside St	 1638 W Burnside Street			128 residential, 83 below grade parking, 209 long term bike, 5,791 SF retail/commercial, clubhouse, terrace	8		Type III			Building setbacks, 8' sidewalks change to 15', special building like code could increase to 25' (request for extra 10' to be waived) reach public hearing
5 MLK Jr Blvd	 5 MLK and Burnside	4+		202' tall, 112,000 sf office, 220 residential, 14,000 sf retail, 158 parking spaces, 344 bikes, fitness center, yoga studio, lounge, roof deck with pool, multiple terraces	17		Type III	GHSC Architects	Gardner Eden	staff review no approval rec, but review of loading areas and sidewalk, BE5 review of stormwater facilities, scuffs design, details and materials, project responds well to feedback
Lloyd Crenshaw Redevelopment	 1400 NE Multnomah			677 Apartments, ground floor retail,	6		Type III	Habit Architecture		
Cook Security Group G	 9100 NE Cascade Parkway		3/20/2017	27,000 sf			Type III	Scofield Edwards Architecture		site originally with street blanching & (proposed zoning changes), close to PDX airport, The Development Commission reviewed Earth Advantage gold cert. - in wetlands

APPENDIX VI: EXAMPLES PROVIDED BY BOB SCHATZ



METAL AND REAL STONE SIDING
SOLAR PANELS
HIGH QUALITY METAL WINDOWS
NEW SIDEWALKS
STORM WATER HARVESTING
OVER INSULATED FOR ENERGY EFFICIENCY
DESIGNED BY AN ARCHITECT

DESIGN DENIED



HARDIE-PLANK PAINTED SIDING
LEAST EXPENSIVE VINYL WINDOWS
DESIGNED BY PLAN BOOK

DESIGN APPROVED

**THESE TWO PROJECTS ARE ACROSS THE STREET FROM EACH OTHER IN GATEWAY.
EACH OWNER SPENT THOUSANDS OF DOLLARS FOR DESIGN REVIEW.**

APPENDIX VII: EXAMPLES PROVIDED BY BOB SCHATZ

A. PROCESSES

PRIORITY

- 1 **Adjust the thresholds for design review to provide a high level of review for larger projects in d-overlay districts but lessen the level of review for smaller projects.**
 - a. Restructure the thresholds based on two geographies: 1) Central City and 2) Neighborhoods: Inner, Western and Eastern – including Gateway.
 - b. Modify thresholds for design review to reflect a tiered approach based on the magnitude of change.
- 2 **Improve the review processes with a charter, better management of meetings and training for both the Design Commission and staff.**
 - PRIORITY** a. Adopt a new charter for the Design Commission.
 - PRIORITY** b. Manage Commission meetings more effectively.
 - c. Provide training for staff.
 - d. Convene regular Design Commission retreats.
- 3 **Align the City's review process with the design process.**
 - a. Organize the City's review process to correspond to a project's typical design process.
 - PRIORITY** b. Focus deliberations.
 - PRIORITY** c. Require DARs for Type III reviews for larger projects in the Central City.
 - d. Expect a collaborative attitude from all participants.
- 4 **Better communicate the role of urban design and the d-overlay tool.**
 - PRIORITY** a. Improve public information and education.
 - b. Hold applicant orientation "primers" on a regular basis.
- 5 **Improve the public involvement system.**
 - PRIORITY** a. Post large signs noting impending reviews.
 - b. Increase mailed notices for Type II and Type III reviews.
 - c. Require applicants to document community input.
 - d. Ensure inclusivity in decision-making process.
- 6 **Monitor and evaluate these amendments.**
 - a. Document where changes are occurring and what the impacts are. The analysis should be evaluated by BPS, BDS, Design Commission, and Planning and Sustainability Commission.
 - b. Formalize the annual reporting in Design Commission's "State of Design."
- 7 **Consider establishing more than one Design Commission following a period of evaluation.**

APPENDIX VII: EXAMPLES PROVIDED BY BOB SCHATZ

B. TOOLS

PRIORITY

- 1 General | **Clarify and revise the purpose and scope of the d-overlay.**
 - a. Revise the purpose statement for d-overlay to reflect current thinking.
 - b. Simplify d-overlay terminology.
 - c. Clarify the scope of design review.
- 2 General | **Sync the standards and guidelines.**
 - a. Use a parallel structure for standards and guidelines.
 - b. Combine the standards and guidelines into one document.
 - c. Create a consistent format.
 - d. Separate out historic review criteria.

PRIORITY

- 3 General | **Use the three tenets of design to simplify, consolidate, and revise the Standards and Guidelines.**
 - a. Respond to context.
 - b. Elevate the public realm.
 - c. Expand "quality and permanence."

- 4 General | **Broaden "base/middle/top" to encompass other design approaches.**

- 5 General | **Recognize the unique role of civic buildings in urban design.**

PRIORITY

- 6 Community Design Standards | **Ensure that the CDS add value to recently adopted base zoning codes.**

PRIORITY

- 7 Community Design Standards | **Provide for optional ways of meeting standards.**
- 8 Community Design Standards | **Craft appropriate standards for the Gateway area.**
- 9 Community Design Standards | **In recrafting the Community Design Guidelines, recognize the changing nature of the city.**

- 10 Central City Fundamental Design Guidelines | **Collate special district design guidelines into one citywide set.**

- 11 Central City Fundamental Design Guidelines | **Revisit and simplify some of the guidelines.**

- 12 Central City Fundamental Design Guidelines | **Collate the subdistrict guidelines into the Central City Fundamental Design Guidelines.**

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THE STATE OF THE ECONOMY

SYDNEY BOWMAN
Portland State University

The state of the economy is a broad exploration into the economic trends and growth metrics on the global, national and local levels. Oregon, which has recently outperformed the U.S. economy, is showing signs pointing toward a continued softening from past growth. Overall Oregon is still benefitting from strong fundamentals with almost full employment. The Portland pipeline may see an increase in public projects with the onset of additional tax revenue funding new construction.



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STATE OF THE ECONOMY

GLOBAL ECONOMIC ACTIVITY

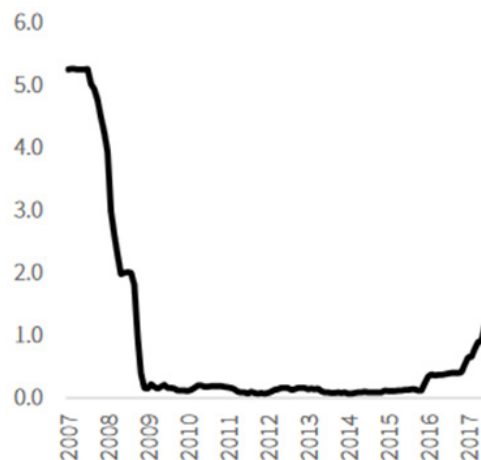
In the April 2017 World Economic Report published by the International Monetary Fund, the world economy is projected to increase to an estimated 3.6 percent in 2018. This is compared to previous years of estimated 3.1 percent in 2016 and 3.5 percent in 2017. This pickup is partially due to a higher projected growth in the United States, which in 2016, was experiencing inventory adjustments and weak investment. With the recent election in the U.S., an expectation of looser fiscal policies have been reinforced, thus contributing to high U.S. Treasury interest rates and a stronger dollar.

U.S. ECONOMY

Interest Rates

In June, the Federal Reserve raised interest rates by an additional 25 basis points – the second time during the year. As projected going into 2017, three interest rate hikes were to be expected. But according to JLL, there is a 47 percent chance the third interest rate will happen. The ultimate decision will be delayed until December when the economy's overall performance is clearer. Overall, however, these increases are slow by historical standards as seen by Figure 1.

Figure 1: Effective Monthly Fed Funds Rate (%)



Source: JLL: Economy Q2 2017

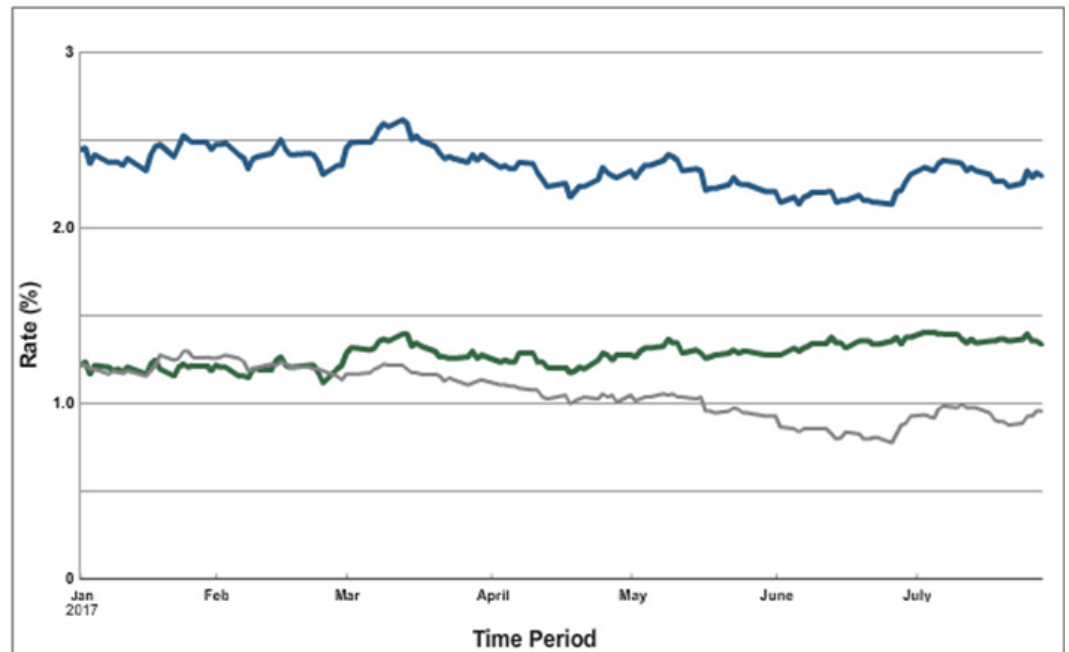
Treasury Rates

Falling bond yields and an unchanging yield curve (Figure 2) suggest signs of economic slowing. According to CBRE's Economic Watch, 10-year Treasury yields have settled at 2.3 percent, as the market started to anticipate discounted economic growth, which is down from 2.6 percent in March. Concern for the Federal Reserve is inflation, where most recent inflation numbers have been falling below the 2 percent target.

STATE OF THE ECONOMY

U.S. ECONOMY

Figure 2: Historical Treasury Rates



Source: U.S. Department of Treasury

GDP

Overall consumer spending, as described in CBRE's Economic Watch, increased for the second quarter of 2017 by 2.6 percent at an annualized rate, in line with consensus expectations. gross domestic product (GDP) was the best quarter since the third quarter of 2016 when growth was 2.8 percent. By comparison, growth in the second quarter last year was 2.2 percent and in 2015 was 2.7 percent.

OREGON ECONOMY

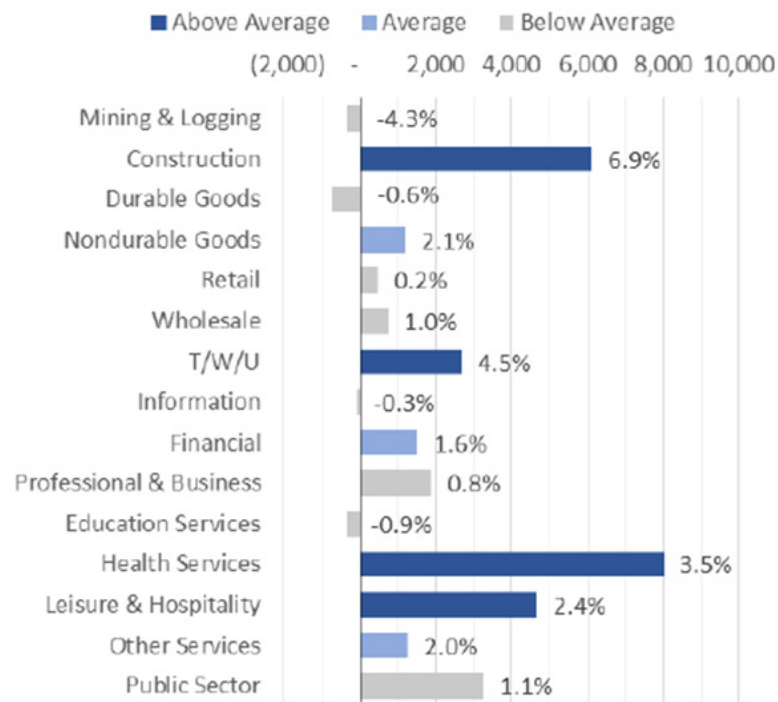
Oregon Employment

According to United Van Line's 2016 study, Oregon is the third destination for movers in the nation. Economist Josh Lehner in his Incomes, Migration and Housing Affordability article in June wrote, "migration by itself lowers Oregon incomes in the short-run given migrants tend to be younger and less likely to be employed." With 3,000 jobs being added a month, Oregon so far has been able to keep on pace with the growing population. This is in comparison to 5,000 jobs per month in previous years. Employers are forced to hire workers who traditionally would have been passed over and therefore tightening the labor market and slowing job growth. The 2017 Oregon Economic and Revenue Forecast reported that, although income and wages are still growing and remain strong in all ranges of income types, this growth has been cut in half over the past two years.

Of these jobs, sectors such as professional and business services, health services and leisure and hospitality that have historically led job growth, are showing some softening. The construction industry is the only area where growth has not slowed and remains in high demand due to the amount of building occurring in the city (Figure 3). This is expected to continue, and with the advent of new construction material technologies such as cross laminated timber, it holds promise for Oregon's economic future and a possible revamp of the timber industry.

OREGON ECONOMY

Figure 3: Oregon Employment Growth by Sector [Q12016 - Q12017]



Source: Oregon Economic and Revenue Forecast May 2017

Capital Markets

A general trend of declining sales volume has been the theme for 2017 nationally and locally. Overall the nation has seen a total an 8 percent decline in sales volume for the first half of the year (Figure 4) and Portland is seeing an overall 24 percent weighted average decrease in sales volume for each product type from last year (Figure 5).

Figure 4: National Quarterly Transaction Volume

	Q2'17		H1'17	
	Vol (\$b)	YOY	Vol (\$b)	YOY
Office	33.6	-2%	64.6	-2%
Retail	13.7	-28%	32.4	-16%
Industrial	15.3	10%	30.1	10%
Hotel	7.3	-1%	13.5	0%
Apartment	35.2	-1%	62.6	-17%
Dev Site	4.1	-13%	7.9	-20%
Total	109.2	-5%	211.1	-8%
Major Metros	39.8	-24%	82.1	-20%
Secondary Mkts	51.4	10%	95.6	-3%
Tertiary Mkts	14.7	-2%	29.5	0%
Portfolio	23.3	15%	46.6	-16%
Single Asset	85.9	-9%	164.6	-6%

Source: Real Capital Analytics: U.S. Capital Trends

STATE OF THE ECONOMY

OREGON ECONOMY

Figure 5: Portland Sale Transactions By Property Type Q1-2017

Transactions Reported Closed - All Portland Property Types Q1 2017									
Office		Industrial		Retail		Apartment		TOTAL	
Vol/(\$M)	\$/SF	Vol/(\$M)	\$/SF	Vol/(\$M)	\$/SF	Vol/(\$M)	\$/SF	Vol/(\$M)	Y/Y Change
534.0	246	190.0	76	344.6	246	559.4	169,317	1,701.40	-24%

Source: Real Capital Analytics: U.S. Capital Trends

The Private/Public Shift

As evident from tax return data, the private sector benefited from high income wages last year reported by the 2017 Oregon Economic and Revenue Forecast. Oregon outperformed revenue expectations - the state capturing growth from tax revenue which is expected to be put to work into the civic realm.

As reported in The Oregonian on July 7th, the Oregon House approved a \$5.3 billion transportation funding package last month. This transportation bill is believed to lead to more public projects for the state. Anecdotal, Dave Andersen from Andersen Construction noted that he has seen a shift in his bid work move from private sector projects in multifamily and office (projects such as The Yard, The Goat Blocks and The Fair-Haired Dumbbell) to the institutional sector (such as the OHSU Knight Cancer Research Building and Southern Oregon University's McNeal Pavilion).

LOOKING AHEAD

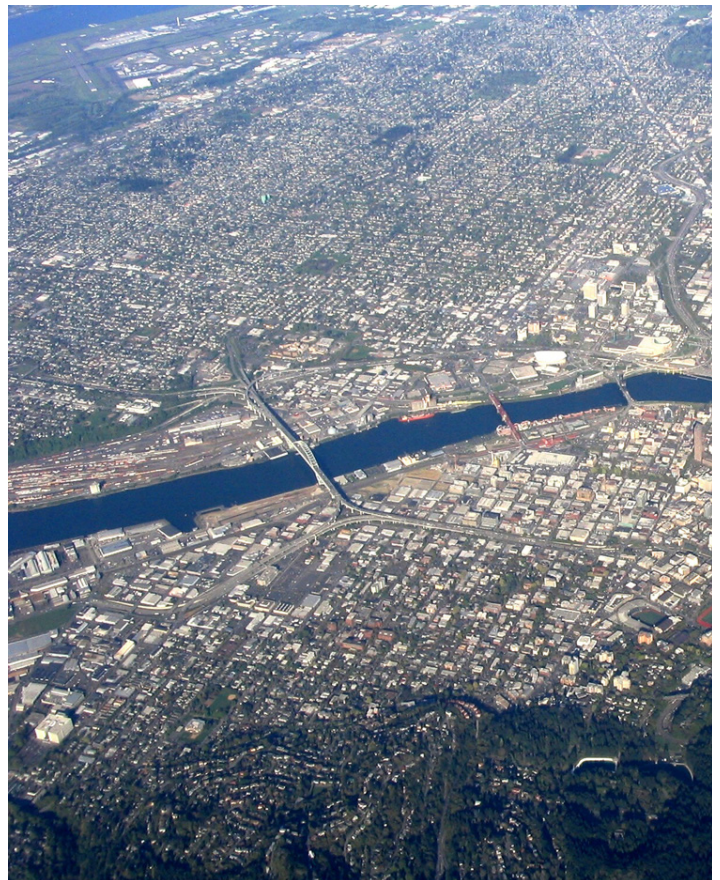
As Oregon continues to outperform much of the U.S., the state's trajectory of softening job growth will remain, as well as a tightening labor market. Added infrastructure to the Portland MSA can be expected along with a continuing need for construction labor. Further, current construction technologies could add additional vigor to Oregon's economy overall.

RESIDENTIAL MARKET ANALYSIS

JON LEGARZA
RMLS Student Fellow
Master of Real Estate Development Candidate

Many of the single family housing trends in the second quarter of 2017 bounced upwards following a continuation of steadily increasing quarterly trends over the last year. The spring home buying season is characterized by higher transaction volumes, upticks in sales prices and a decrease in average days on market within the majority of the markets analyzed here.

In many of the markets analyzed, the transaction volume increased compared to last quarter, while the year-to-year transactions generally decreased, also indications from the strong spring season. The number of real estate transactions in Portland increased for both existing and new homes both from last quarter to this quarter and in the second quarter of 2017 when compared to the same quarter last year. While it is difficult to determine the reason for the renewing trend, it is interesting to note that Portland's median home sale price increased last quarter from \$349,900 to \$380,000. Redmond, Bend and most counties in the Willamette Valley experienced an uptick in sales price. Eugene declined with regards to transaction volume and Salem and Marion County increased following a last quarter decline. Sales volume is still above the boom years of the mid 2000's but permits continue to lag behind the mid-2000's.



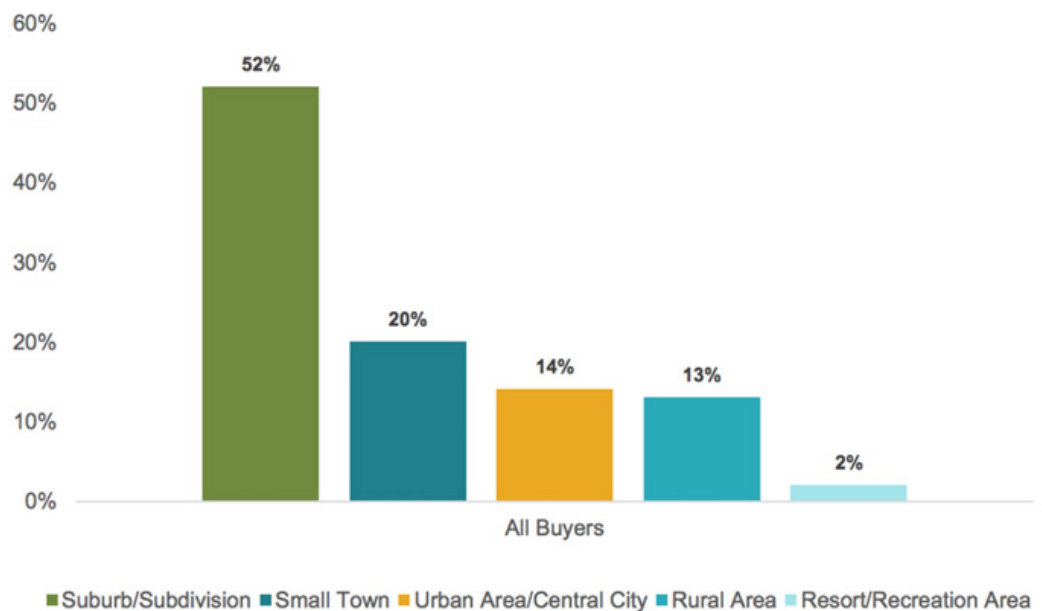
Jon Legarza is a current Master of Real Estate Development candidate through a joint program of Portland State University's School of Business Administration and School of Urban Studies and Planning. He is the 2016 RMLS Student Fellow at PSU's Center for Real Estate. Any errors or omissions are the author's responsibility. Any opinions expressed are those of the author solely and do not represent the opinions of any other person or entity.

Permits for new single-family homes were up approximately 18 percent statewide, reversing some of the trends from last quarter, with wide variation across the state. Portland's permit activity heavily influences the state figures. Portland's permitting of single family decreased close to 17 percent or more compared to last quarter, while Eugene saw a 22 percent increase and Medford an approximately 12 percent increased compared to last quarter. When compared to the same quarter last year, permit activity is up approximately 7 percent statewide.

The development of autonomous vehicles has potential implications that will change the residential landscape in the future. Residual valuation of lands will change with the development of the autonomous vehicle—allowing commuters and individuals to travel farther for work and leisure. Technological and legal developments towards fully-autonomous travel will impact land values in both suburban and urban neighborhoods. Furthermore, widespread availability of autonomous transportation might enable different, radical capital structure plans that might better attract different autonomous transport consumers. For instance, we have already seen rideshare companies (i.e., Uber and Lyft) impacting driver activity and traffic on highways.

Despite the urban areas of Portland, there is still strong national demand for housing in the suburban, residential areas. The chart below from RCLCO: 2016 NAR Home Buyer and Seller Generational Trends shows suburbs with strong demand over the urban and/or central core.

Locational Distribution of Homes Purchased; National



With the increase of building permits in the state of Oregon, buyers are continuing to move to the suburbs for a variety of reasons. The ability to purchase a single family home that is more affordable (on a per square foot basis) is the main reason. Additionally, highway accessibility and improved school systems influence the move from the city to the suburbs. In the future, we might even see builders in the suburbs attracting customers with a "driverless car and home" package. The residential and automobile landscape is transitioning quickly as consumers are able to telework at home, rideshare and, in the future, not even have to drive to commute.

LOCAL PERMITTING

In the second quarter of 2017, there were 4,742 building permits for new private housing units issued in total across the state of Oregon. This is approximately 17 percent more permits than were issued in the prior quarter and nearly 7 percent more than were issued in the second quarter of 2016.

**Building permits for new private housing
Oregon, statewide, seasonally adjusted**



There were 3,102 permits for new private housing units issued in the Portland-Vancouver-Hillsboro Metropolitan Statistical Area (MSA) in the second quarter of 2017. This represents a 17 percent decrease in permits compared to the first quarter of 2017 and a 5.5 percent decrease in year-over-year permitting. This decrease could be attributed to permitting in the outer regions where land is available. The Portland market accounted for 65 percent of the new statewide permits this quarter.

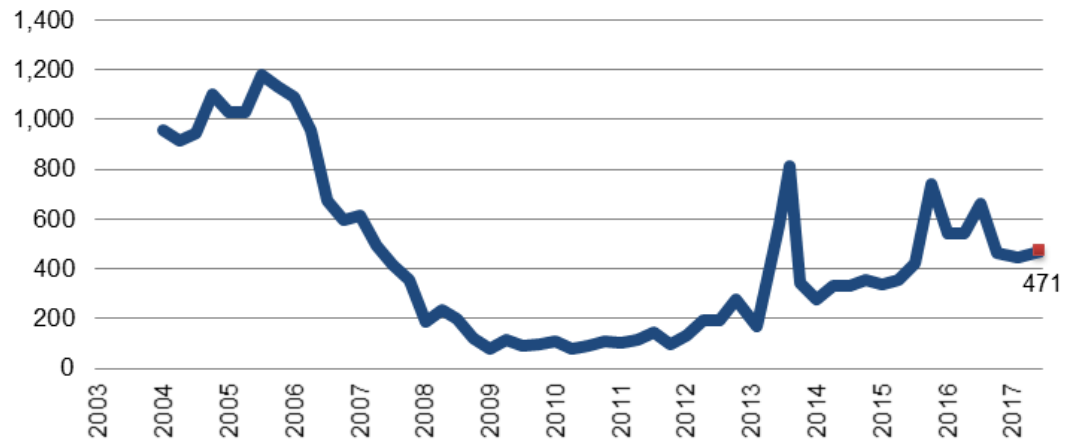
**Building permits for new private housing
Portland-Vancouver-Hillsboro MSA, seasonally adjusted**



LOCAL PERMITTING

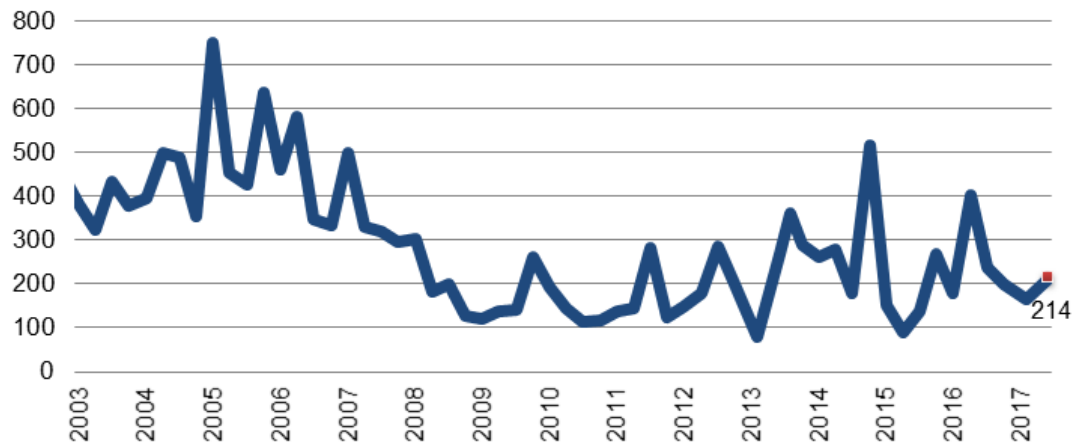
Bend MSA permitting rate increased to 471, by 5.4 percent compared to last quarter and by and even greater 13.4 percent decrease compared to the same quarter last year.

**Building permits for new private housing
Bend MSA, seasonally adjusted**



The Eugene-Springfield MSA's second quarter permitting increased to 214 permits resulting in a 22 percent increase for this quarter from last quarter. The increase in the Eugene market is first after Medford in the state. Permitting for new private housing units totaled 214. While higher than last quarter, this still represents a 22 percent increase over the quarter from last quarter. Will this increase trend continue remains to be seen in the upcoming year along with the affordability of the new housing products.

**Building permits for new private housing
Eugene-Springfield MSA, seasonally adjusted**

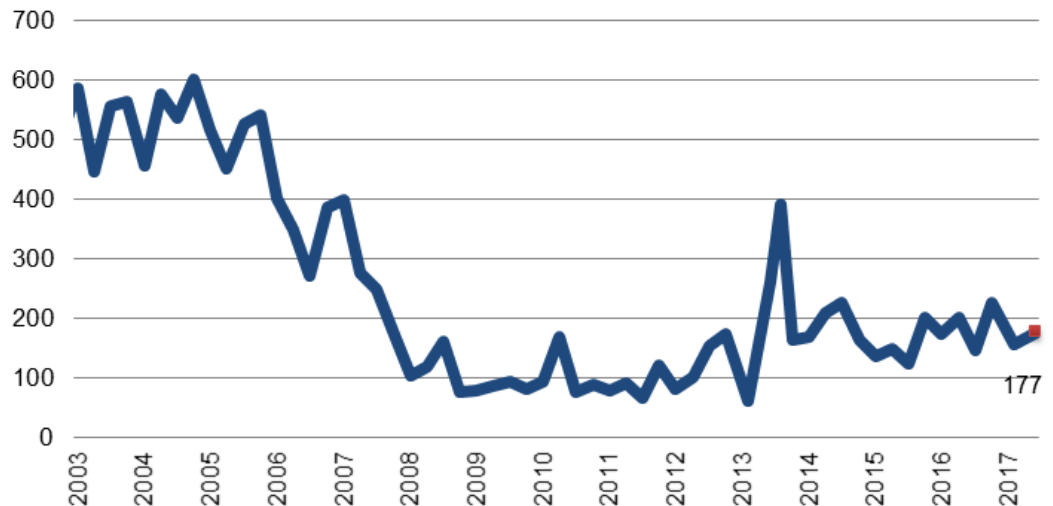


HOUSING MARKET ANALYSIS

LOCAL PERMITTING

Like Eugene, new permits in Medford MSA decreased this quarter, 177, by nearly 12 percent. Like Eugene, even this upward movement compared to last quarter represents a nearly 12 percent increase compared to the previous quarter.

**Building permits for new private housing
Medford MSA, seasonally adjusted**

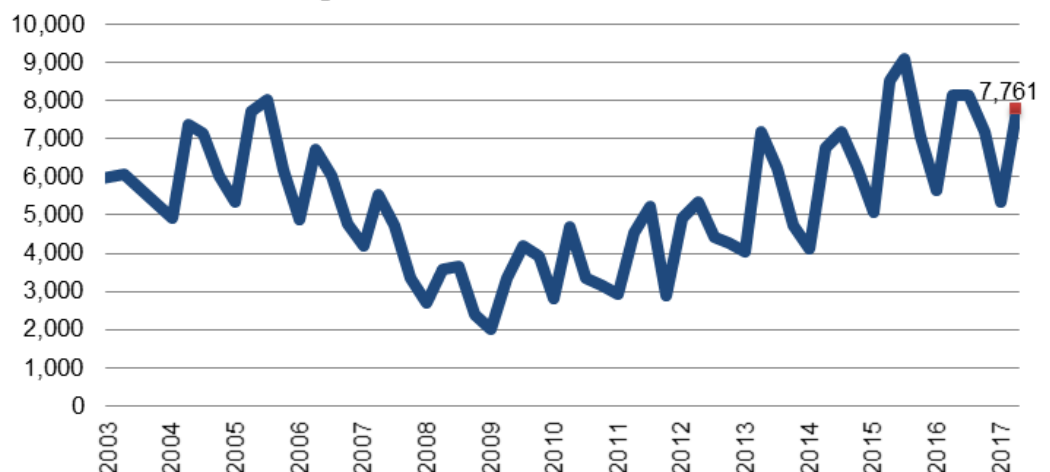


PORTLAND TRANSACTIONS

The first quarter showed signs of reversal from the previous quarter for existing home sales in the Portland market: over 7,761 transactions with a median sale price of \$380,000. This number of transactions is a 7.39 percent increase over the same quarter last year. However, the median sales price for existing homes increased by nearly 5 percent compared to the same quarter last year.

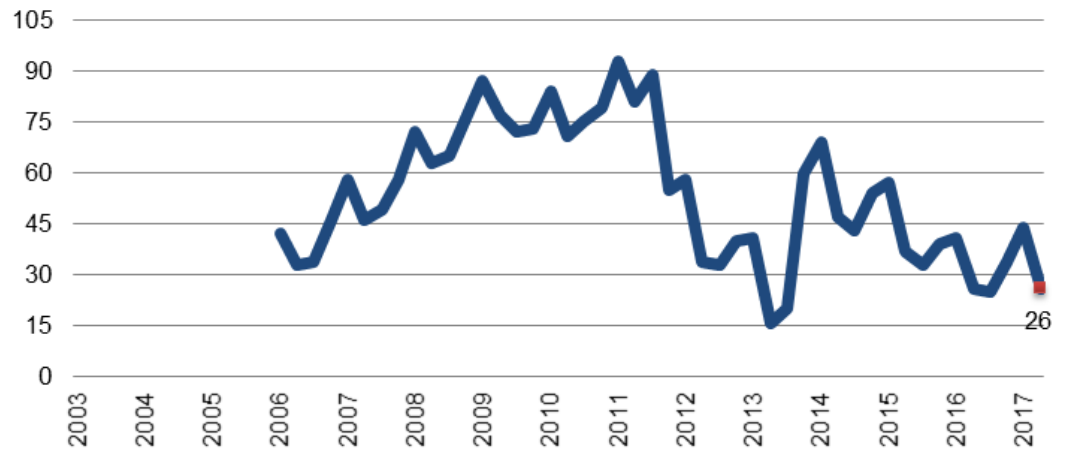
The average days on market for existing homes edged dropped by 18 days, to 26 days from 44 days last quarter. However these 26 days in the second quarter of 2017 represent only a 7.3 percent increase of the average days on market compared to the same quarter last year. Final sales prices in the second quarter continued to be above list price, but rose from 99.51 percent last quarter to 100.8 percent this quarter.

**Number of transactions
Portland metro, existing homes**

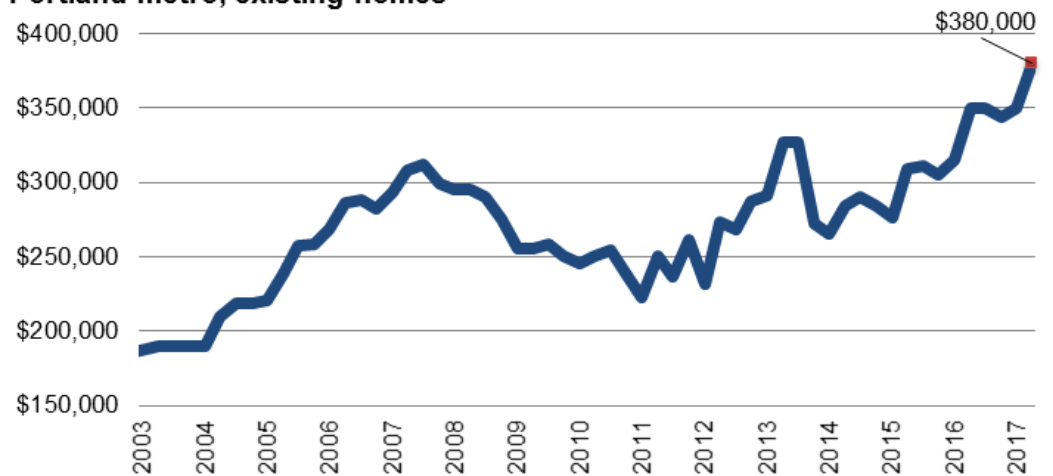


PORTLAND TRANSACTIONS

Days on market
Portland metro, existing homes



Median sales price
Portland metro, existing homes



Ratio of sales price to list price Portland metro, existing homes



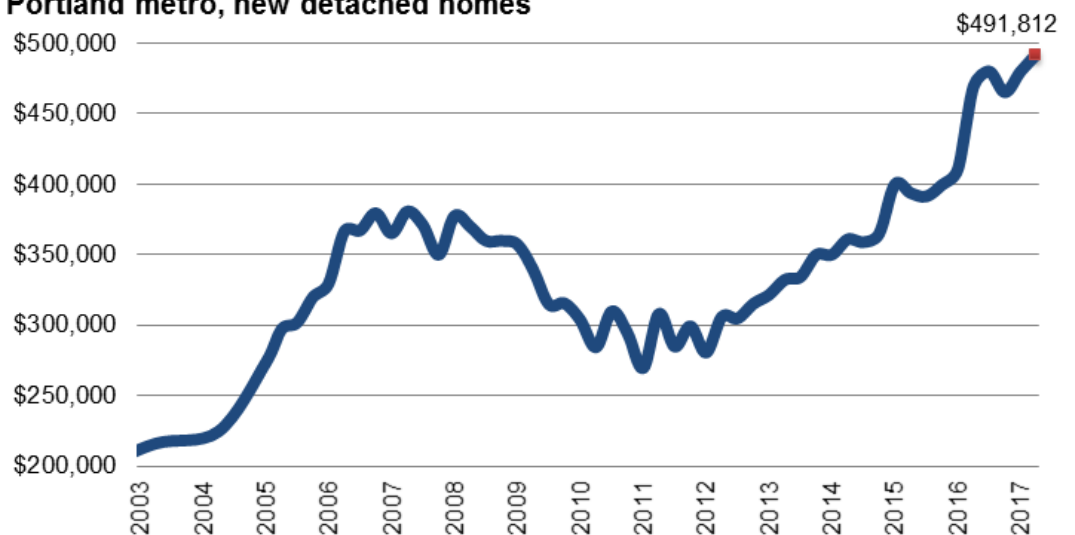
PORTLAND TRANSACTIONS

In the sale of new homes for Portland, the number of transactions, 766, is an 8.4 percent increase compared to last quarter along with a 32 percent increase compared to the same quarter last year. New home median sales price in the second quarter saw a slight increase compared to the last quarter. Last quarter, the median sales price for new homes was \$479,900 compared to \$491,9812 this quarter – an increase of 2.5 percent. When compared to the same quarter last year, however, new home prices have increased 5 percent perhaps due to the increased pricing for the land/lots and labor that is increasingly in short supply.

Number of transactions
Portland metro, new detached homes



Median sales price
Portland metro, new detached homes

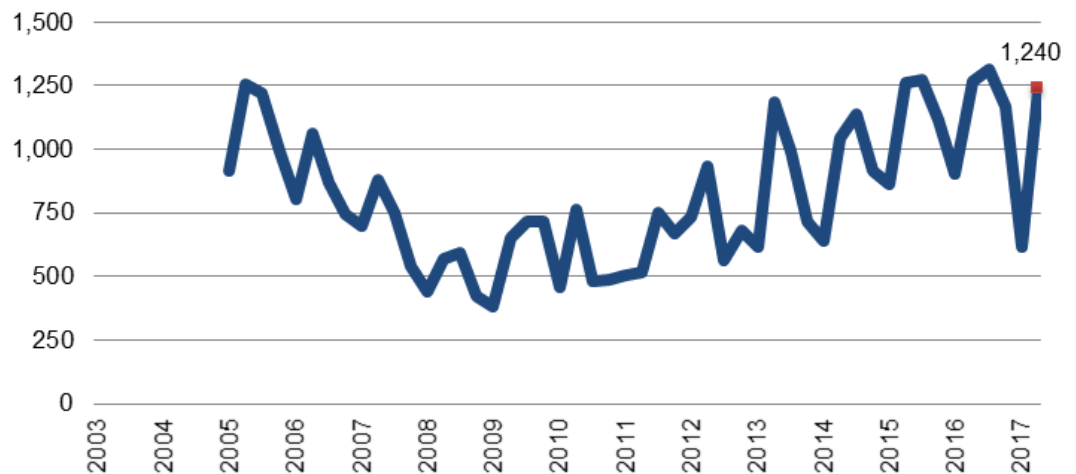


VANCOUVER AND CLARK COUNTY TRANSACTIONS

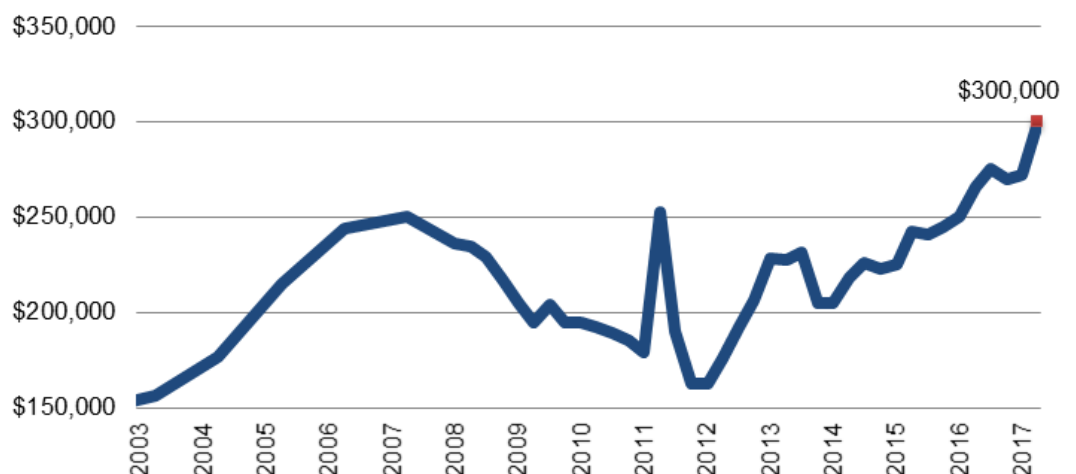
Like Portland, Vancouver experienced an increase in transactions of home sales this quarter compared to last quarter. Vancouver experienced a 3 percent increase in transactions of existing homes compared to last quarter. While Portland experienced a slight decline in year over year transactions, Vancouver's transactions decreased by 3.5 percent compared to the same quarter last year. Clark County transactions were up 3.1 percent compared to last quarter and 3.5 percent lower compared to the same quarter a year ago.

Average days on market continued to decrease quarterly for both Vancouver and Clark County, a reflection of sales activity, but also are at a substantial reduction compared to the same quarter last year. The average days on market for Vancouver, 24, represent an decrease of 44 percent compared to last quarter and a slight decrease of 2.4 percent compared to the same quarter last year. Clark County saw a 38 percent decrease in average days on market compared to last quarter and a 15.7 percent decline compared to the same quarter a year ago. Existing home transactions for Vancouver shot back up to 1,240 with median sales price of \$300,000 and 24 days on the market. Clark County excluding Vancouver transactions increased to 901, median sales price increased to \$347,000 and days on the market went up to 36.

Number of transactions Vancouver, existing homes



Median sales price Vancouver, existing homes

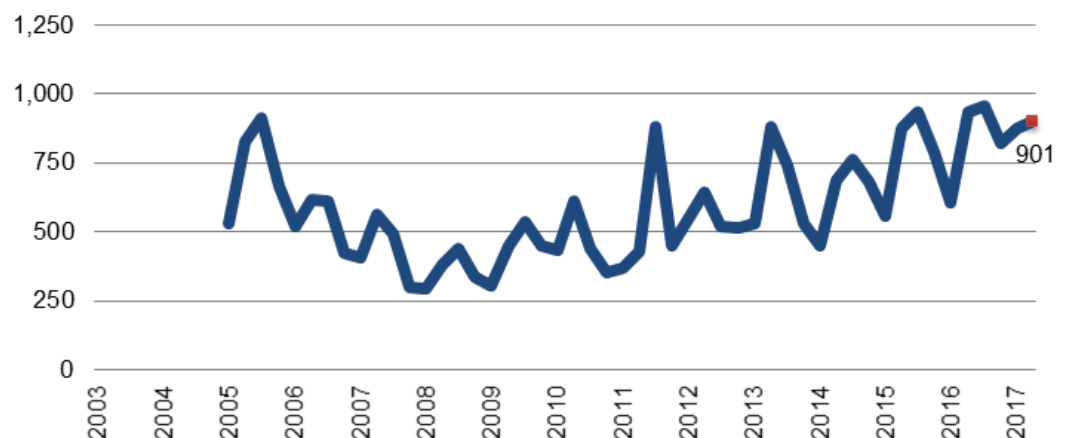


VANCOUVER AND CLARK COUNTY TRANSACTIONS

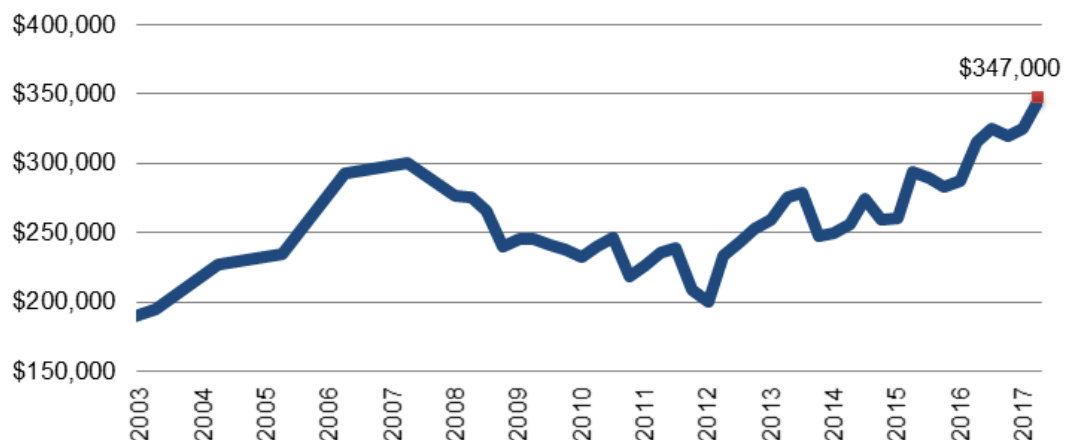
Days on market Vancouver, existing homes



**Number of transactions
Clark County, excluding Vancouver, existing homes**

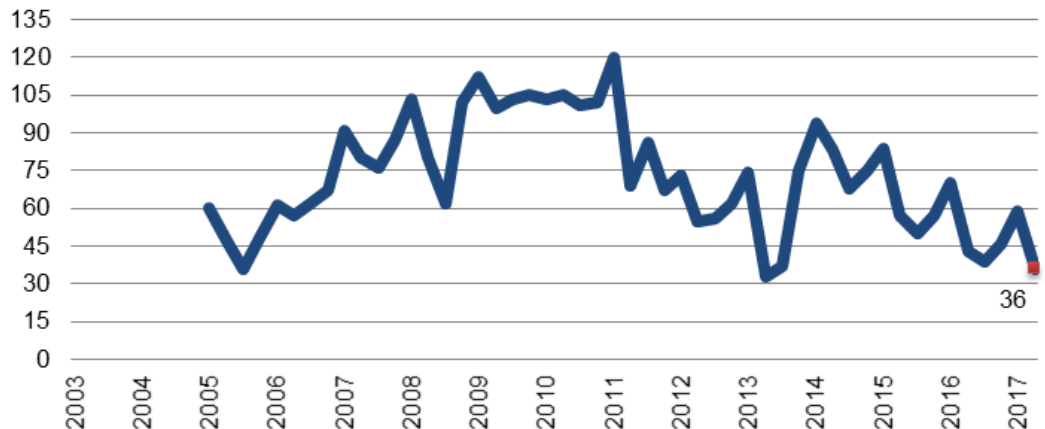


**Median sales price
Clark County, excluding Vancouver, existing homes**



VANCOUVER AND CLARK COUNTY TRANSACTIONS

Days on market
Clark County, excluding Vancouver, existing homes



CENTRAL OREGON TRANSACTIONS

Central Oregon saw decline in activity compared to the statewide continuation of upward trends from the previous quarter. Bend saw a 12 percent decrease compared to last quarter and a 44 percent decrease compared to the same quarter last year. Redmond experienced a 13 percent decrease in transactions compared to last quarter and a 40 percent decrease when compared to the same quarter last year. Bend under acre numbers are 386 transactions, median sales price of \$389,950 and 109 days on the market.

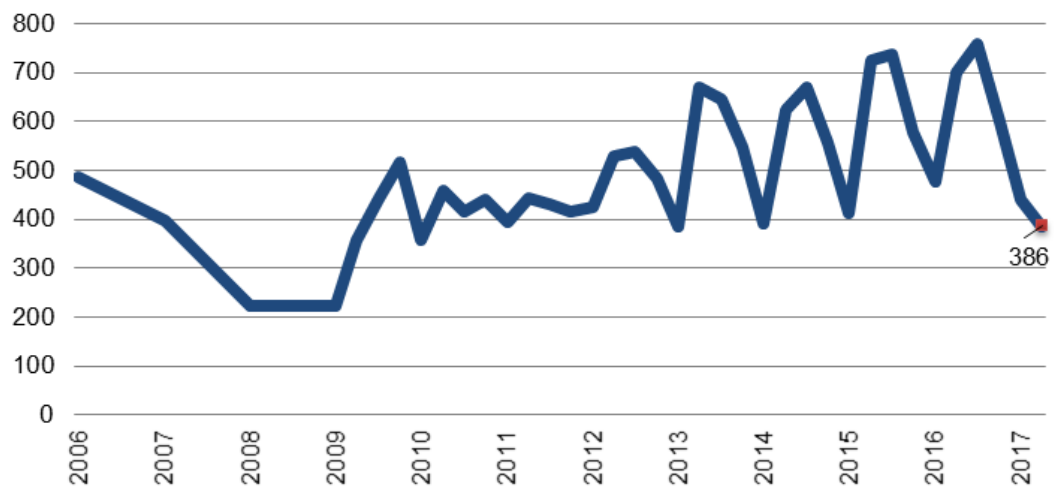
Median home prices in Central Oregon continued the steady, quarterly and year-over-year increases. Bend experienced nearly the same in median sales price at a 40 percent increase compared to last quarter, and nearly a 12.6 percent increase compared to the same quarter last year. Redmond saw a 3 percent uptick in home prices compared to last quarter, with a 15 percent increase compared to the same quarter last year.

Average days on market are increasing overall from last quarter. Bend's average days on market followed suit for days on the market from 129 last quarter to 109 this quarter. Compared to the same quarter last year, where there was a 7 percent decline. Redmond saw a 31 percent increase in average days on market compared to last quarter, with 15 percent increase when comparing this quarter to last year.

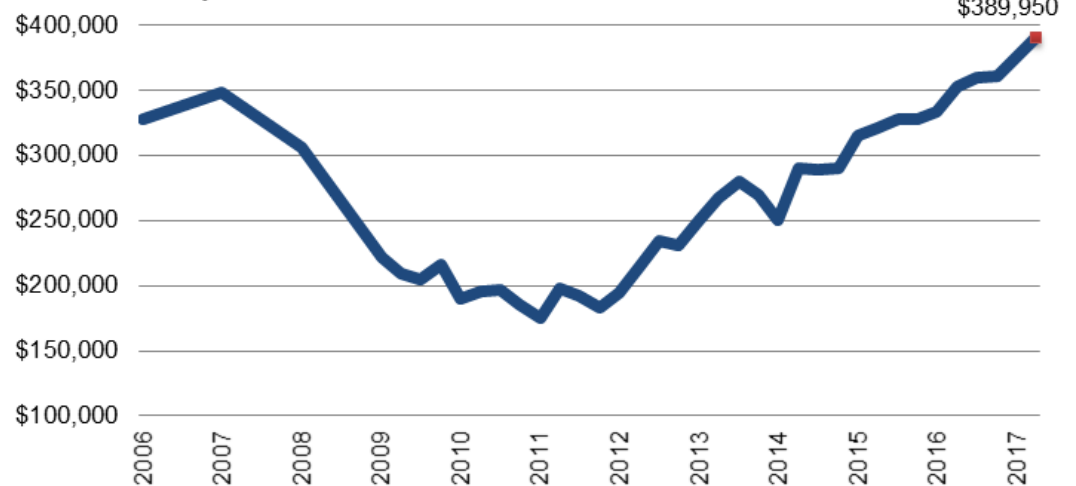
Redmond, the number of transactions increased to 386 from 151. Median sales price increase to \$280,000 from \$272,450. Days on the market decreased from 134 to 116.

CENTRAL OREGON TRANSACTIONS

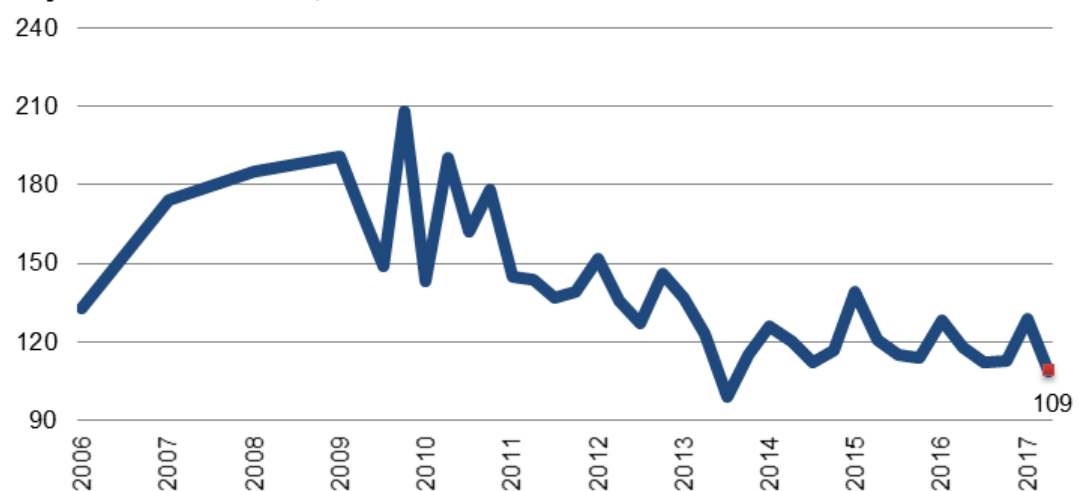
Number of transactions Bend, under 1 acre



Median sales price Bend, under 1 acre

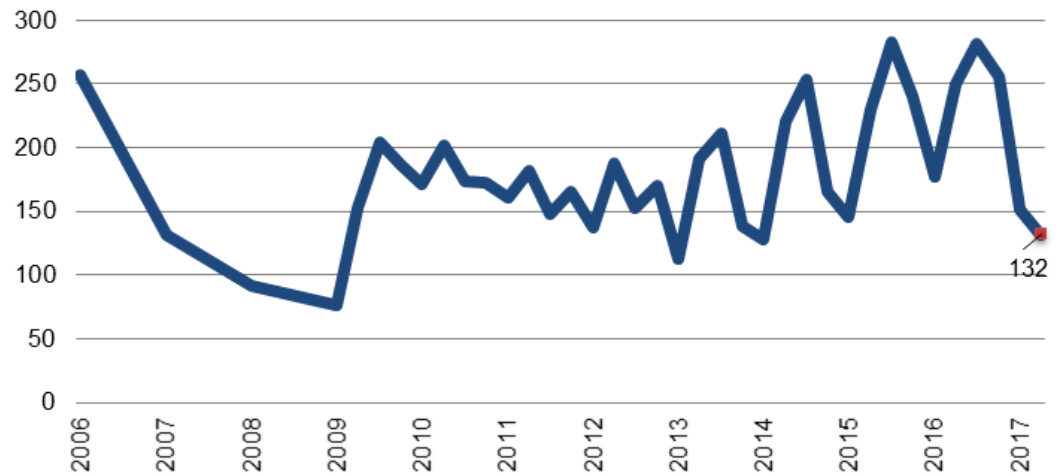


Days on market Bend, under 1 acre

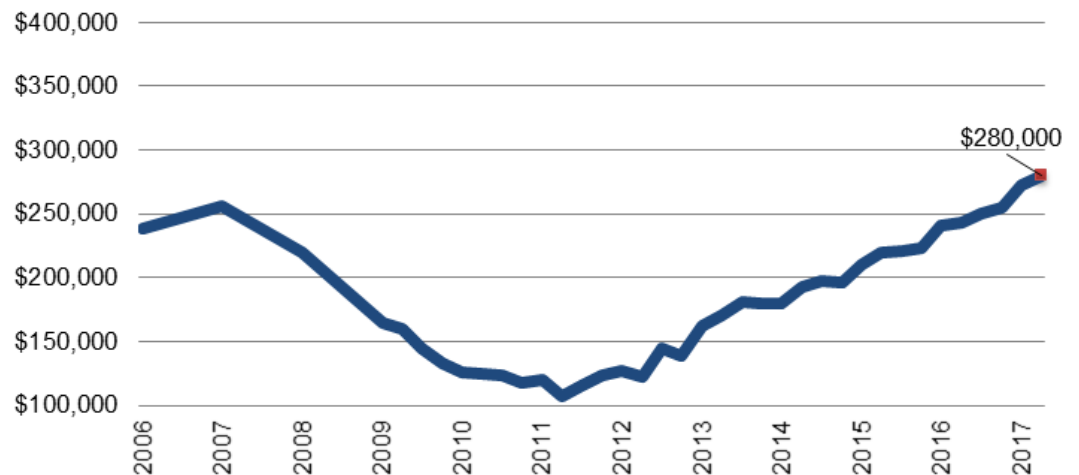


CENTRAL OREGON TRANSACTIONS

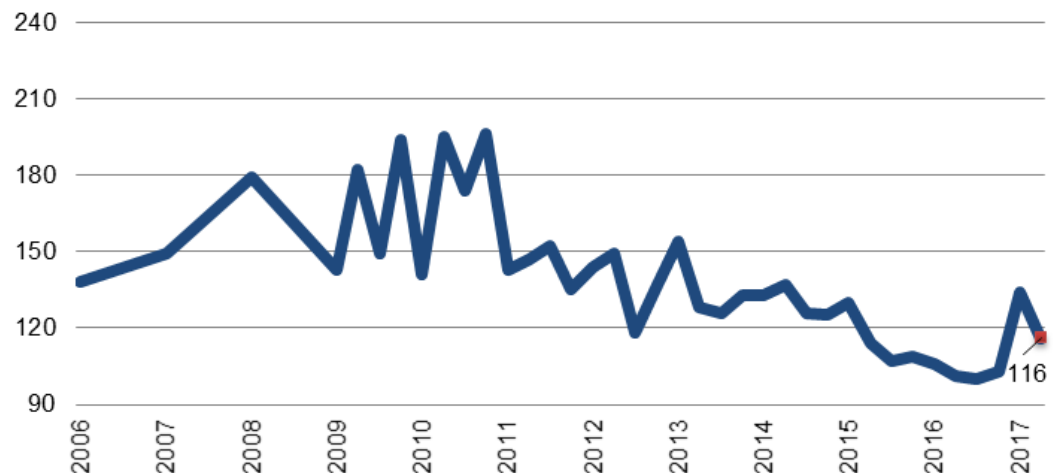
Number of transactions Redmond, under 1 acre



Median sales price Redmond, under 1 acre



Days on market Redmond, under 1 acre

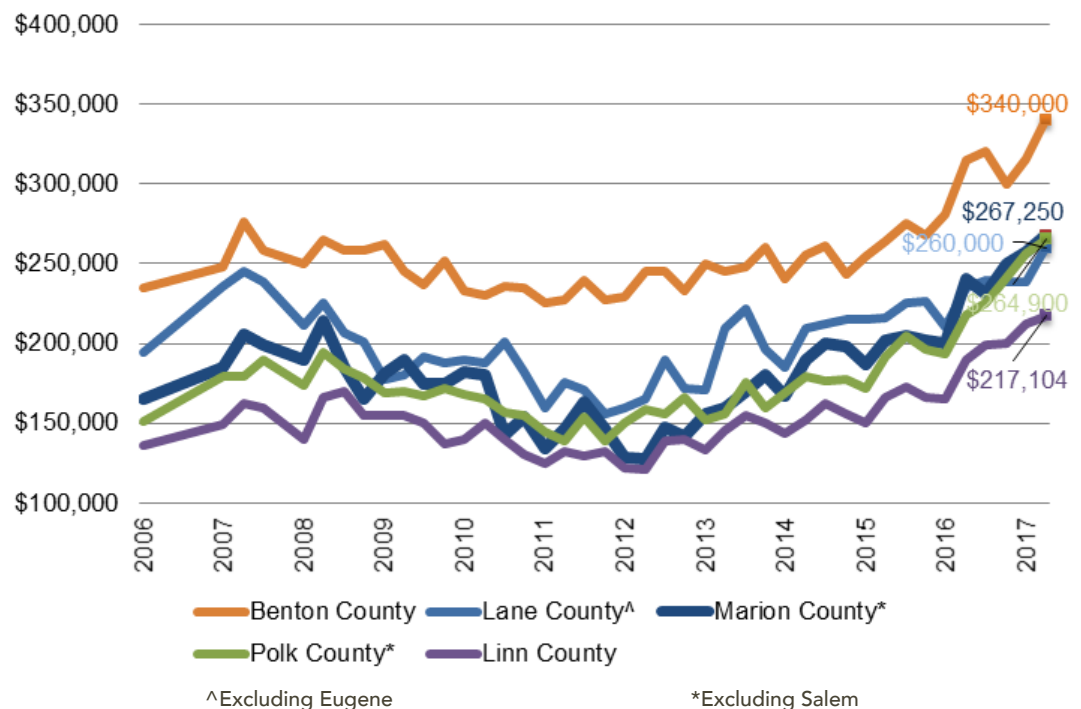


WILLAMETTE VALLEY TRANSACTIONS

The increase in median sale prices seen in the Portland, Vancouver and Clark County areas this quarter was only evident in five counties across the Willamette Valley. However, Marion County, Polk County and Linn County experience increases in price when compared to both the previous quarter and the last quarter of the previous year. Data for the Willamette Valley counties including Salem is provided by Willamette Valley MLS.

- **Benton County:** \$340,000 median price, a 7.75 percent increase from the prior quarter and a 7.94 percent increase year-over-year
- **Lane County (excluding Eugene):** \$260,000 median price, a 9.13 percent increase from the prior quarter and a 10.64 percent increase year-over-year
- **Marion County (excluding Salem):** \$267,250 median price, an 3.99 percent increase from the prior quarter and a 11.35 percent increase year-over-year.
- **Polk County (excluding Salem):** \$264,900 median price, a 3.38 percent increase from the prior quarter and a 21.51 percent increase year-over-year
- **Linn County:** \$217,104 median price, a 2.19 percent increase from the prior quarter and a 14.3 percent increase year-over-year.

Median sales price Willamette Valley, existing homes



SALEM TRANSACTIONS

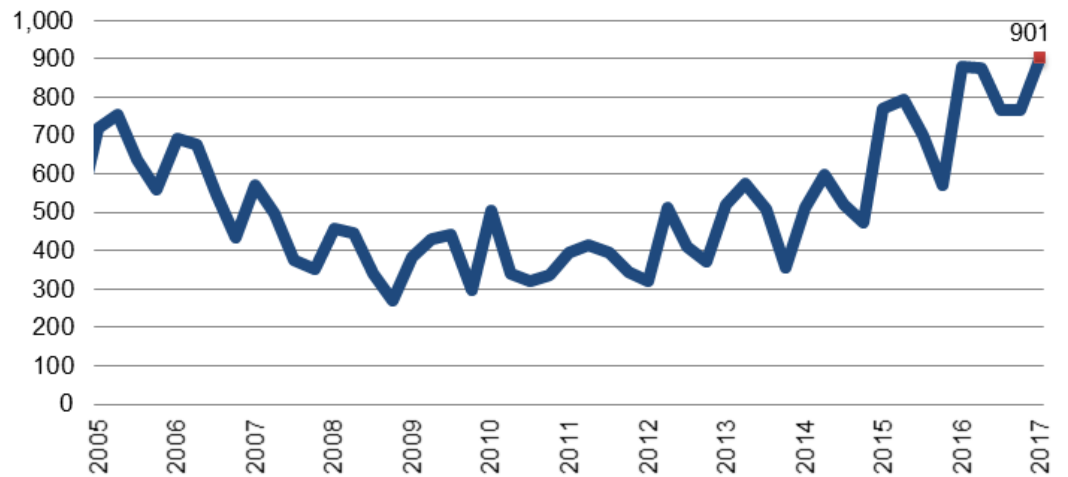
Transaction volume in Salem was consistent with the decline statewide of last quarter's trend. Transaction activity increased 15 percent compared to last quarter, but that volume represents a nearly 9 percent increase compared to last year.

Median sales price in Salem increased as was seen across the state. Median home prices last quarter were \$242,400, while this quarter prices reached \$255,000 – an increase of 3 percent. But compared to the same quarter last year, this decrease in price represents a 17 percent increase.

SALEM TRANSACTIONS

Average days on market also declined when compared to the previous quarter from a year ago. Compared to last quarter, average days on market decreased 11 days, or 11 percent, from 99 to 88.

Number of transactions Salem, existing homes



Median sales price Salem, existing homes



SALEM TRANSACTIONS

Days on market Salem, existing homes

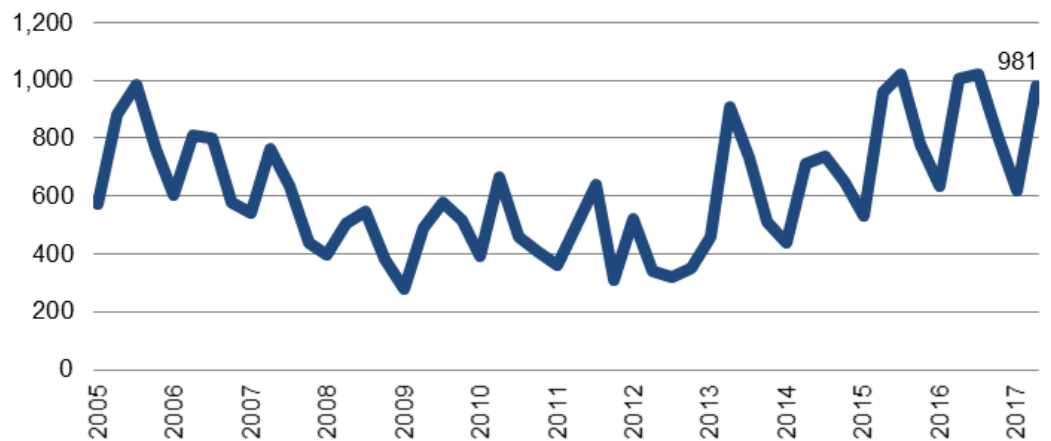


EUGENE- SPRINGFIELD TRANSACTIONS

Like many other areas of the state this quarter, Eugene-Springfield experienced an increase in sales volume from last quarter combined with continued decrease of average days on market. Transaction counts increased 58 percent compared to last quarter, which is an increase of 2.5 percent compared to the same quarter last year. The number of transactions went from 619 upward to 981.

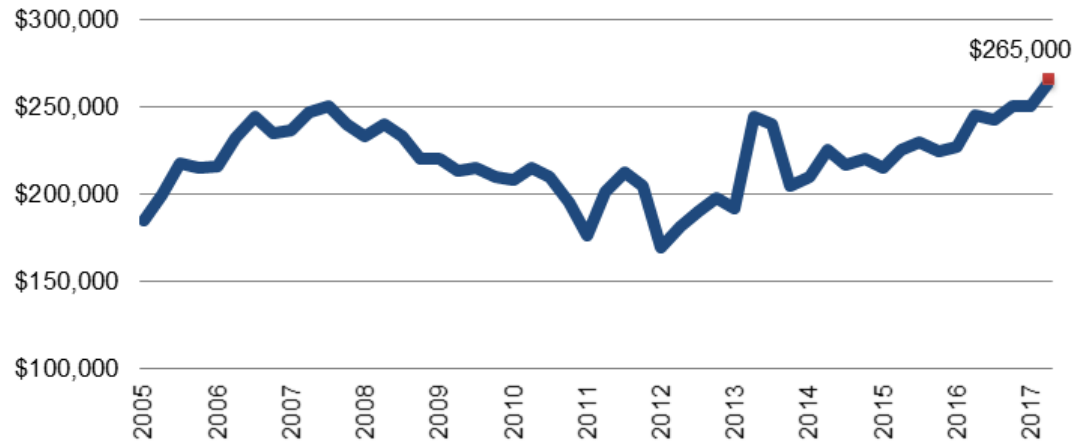
Sales prices increased very slightly from \$250,000 last quarter to \$265,000 this quarter, an increase of 6 percent. The percentage increase of average sales price compared to the same quarter last year is 8 percent. Average days on market decreased a full 3 days this quarter compared to last, from 37 to 34 days on average. This represents a 21 percent decrease compared to last quarter and a 12 percent decrease compared to the same quarter last year.

Number of transactions Eugene-Springfield, existing homes



EUGENE- SPRINGFIELD TRANSACTIONS

**Median sales price
Eugene-Springfield, existing homes**



Days on market Eugene-Springfield, existing homes



SOUTHERN OREGON TRANSACTIONS

Trends in Southern Oregon tracked along side the trends across the state: largely more transaction volumes compared to last quarter from 485 to 637 for Jackson County. However, compared to last year, Jackson County saw only a 5.5 percent increase in transaction volume while Josephine County saw 5.7 percent increase.

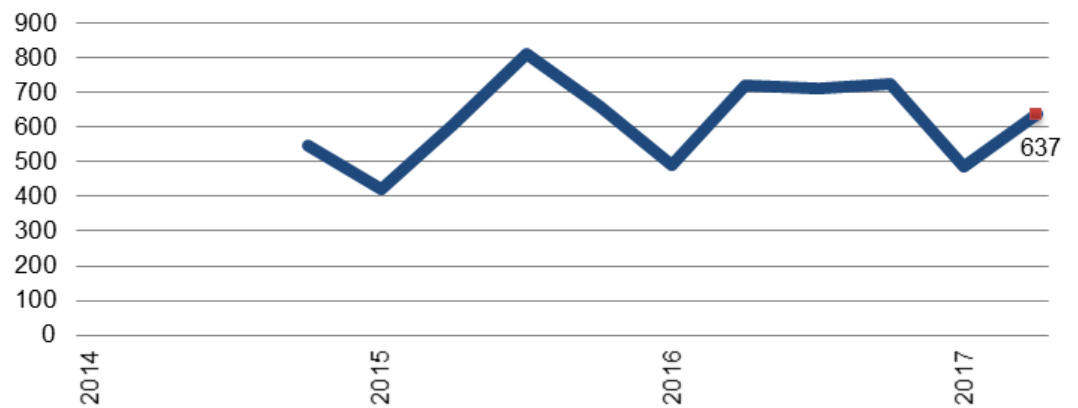
Median home prices increased slightly from \$243,000 to \$258,500, compared to last quarter however increased more substantially compared to the same quarter last year. Average days on market had a slight decrease compared to last quarter for Jackson County, but days on the market declined by approximately 33 percent in Josephine County when compared to the same quarter last year.

Data for southern Oregon is provided in rolling three-month groupings, and the most recent dataset available for this region covers the March 1st to May 31st, 2017 time period.

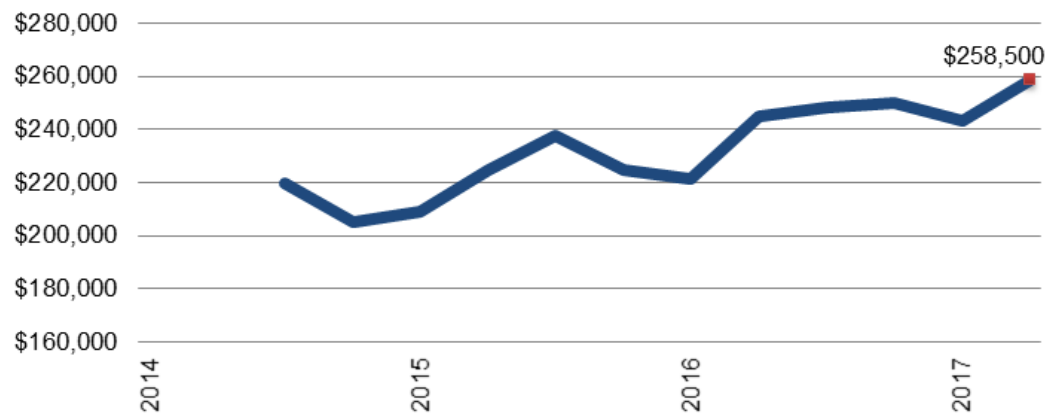
The following figures show the data for Jackson County and Josephine County. Josephine County existing transactions increased from 123 to 184, median sale price increased slightly from \$216,500 to \$220,000 and days on the market decrease to 47 from 37.

SOUTHERN OREGON TRANSACTIONS

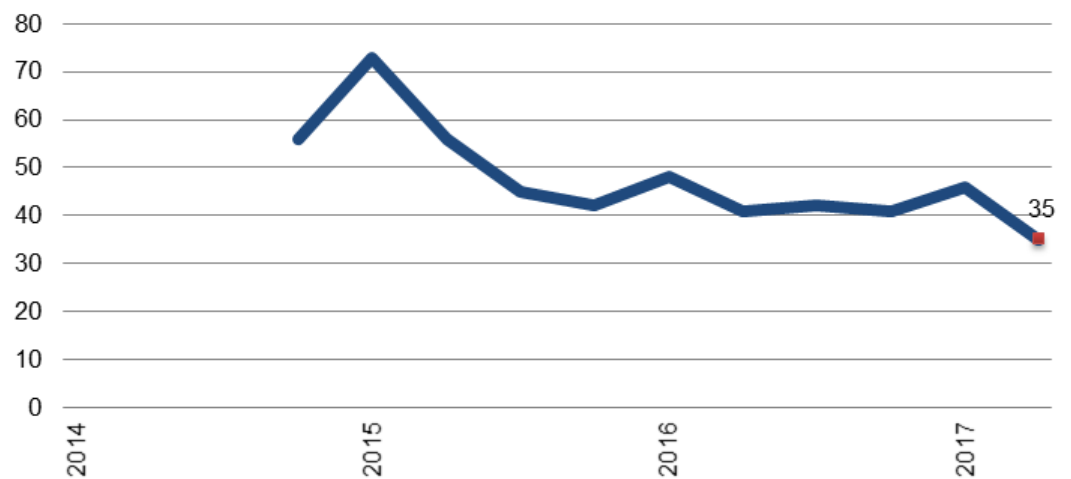
Number of transactions Jackson County, existing homes



Median sales price Jackson County, existing homes



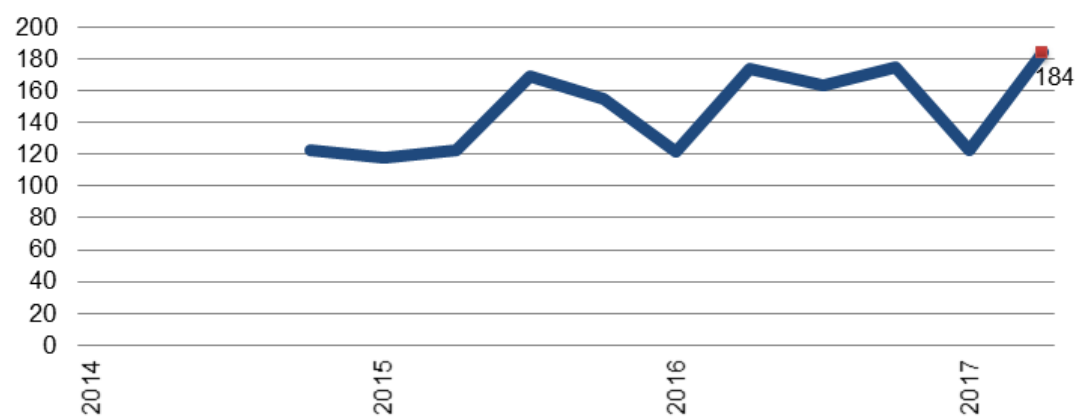
Average days on market Jackson County, existing homes



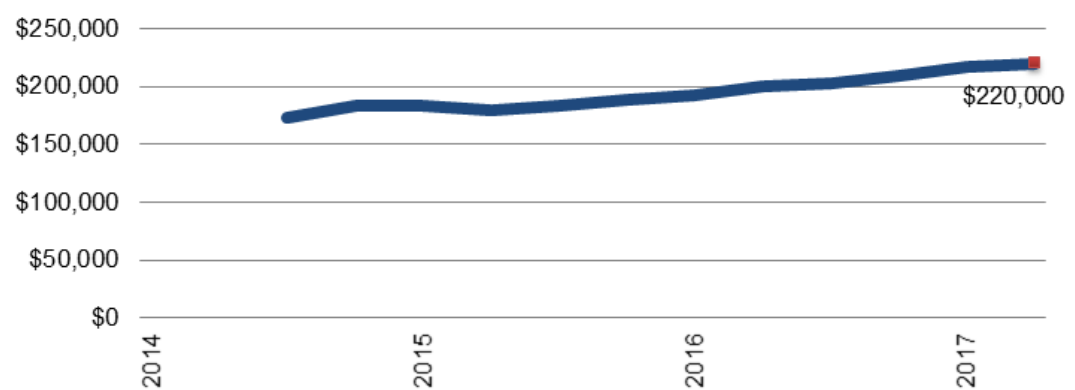
SOUTHERN OREGON
TRANSACTIONS

The following figures display the data for Josephine County.

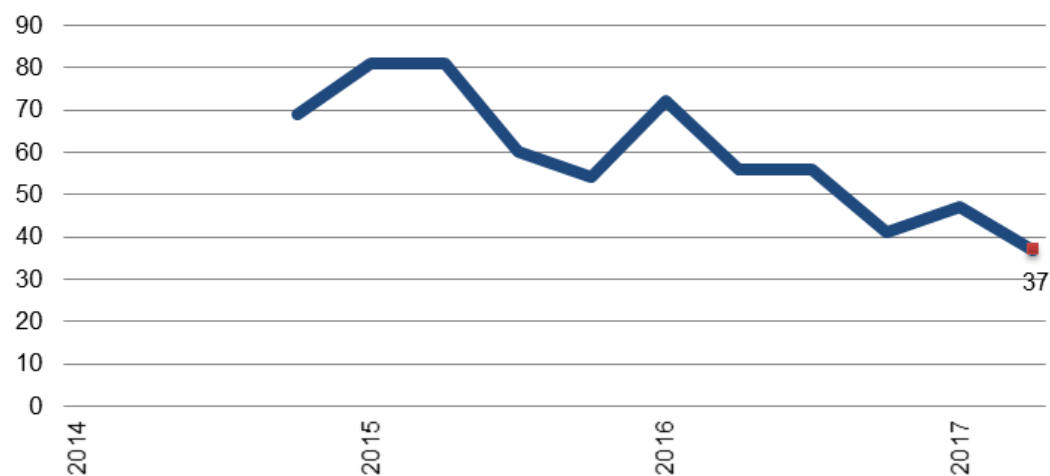
Number of transactions Josephine County, existing homes



Median sales price Josephine County, existing homes



Average days on market Josephine County, existing homes



MULTIFAMILY MARKET ANALYSIS

CARLO CASTORO
Portland State University

- Effective rent growth climbs in Q2 but continues downward annual trend.
- Occupancy remains relatively steady and slightly above long-term average.
- Rent growth continues shift from Portland Core to suburban submarkets.
- Massive sell off last year leaves 2017 sales short.
- Relocation fees are upheld and the ban on rent control remains intact.



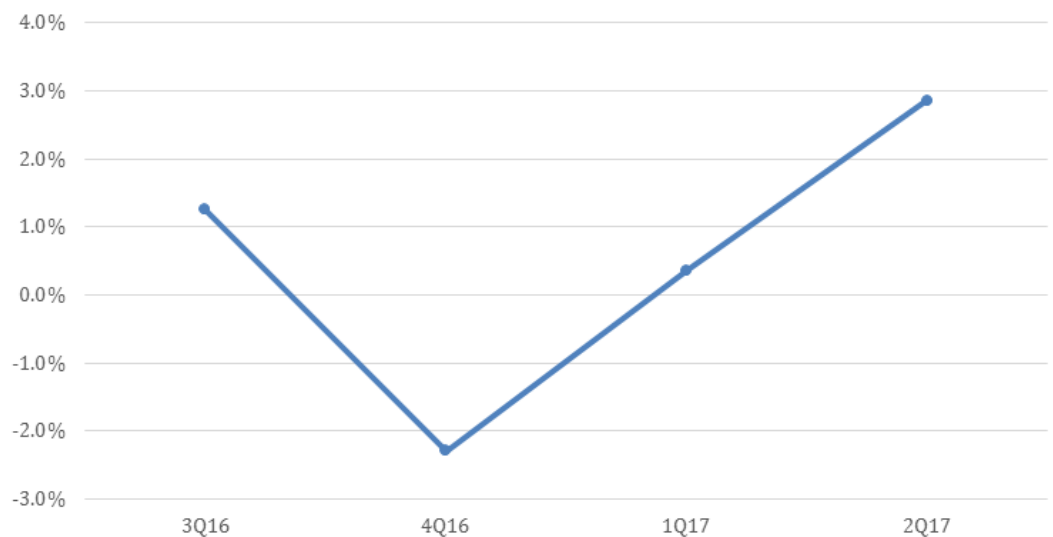
Carlo Castoro is a current Master of Real Estate Development candidate through a joint program of Portland State University's School of Business Administration and School of Urban Studies and Planning. He is a full time Assistant Manager for Gerding Edlen and part time residential broker with Cascade Sotheby's International Realty. He is the 2017 Multi-Family Graduate Student Fellow at PSU's Center for Real Estate. Any errors or omissions are the author's responsibility. Any opinions expressed are those of the author solely and do not represent the opinions of any other person or entity.

EFFECTIVE RENTS

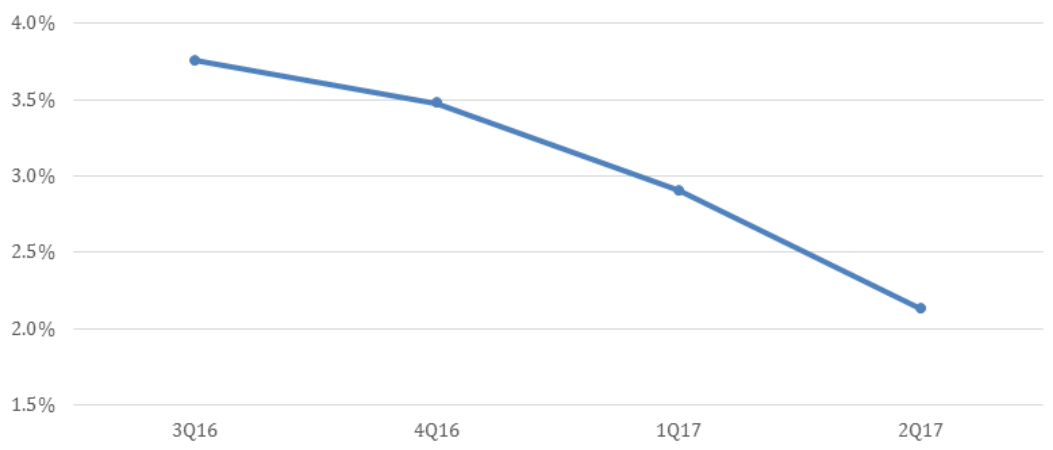
Quarterly rent growth up which is typical during the warmer summer months. Annually, however, Portland Metro rent growth continues its long slide down to 2.1 per-cent.

	3Q16	4Q16	1Q17	2Q17
Effective Rent Per Unit	\$1,399	\$1,367	\$1,372	\$1,411
Per Sq. Ft	\$1.56	\$1.53	\$1.53	\$1.58
Effective Rent Growth - Annually	3.8%	3.5%	2.9%	2.1%
Effective Rent Growth - Quarterly	1.2%	-2.3%	0.4%	2.9%

Effective Rent Growth - Quarterly

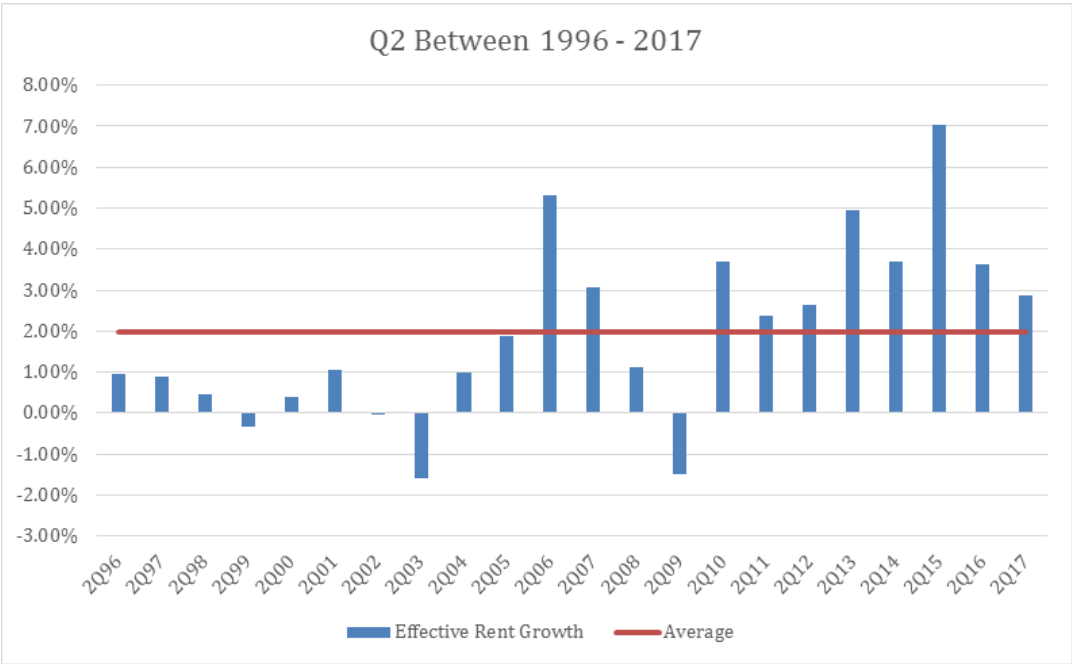


Effective Rent Growth - Annually



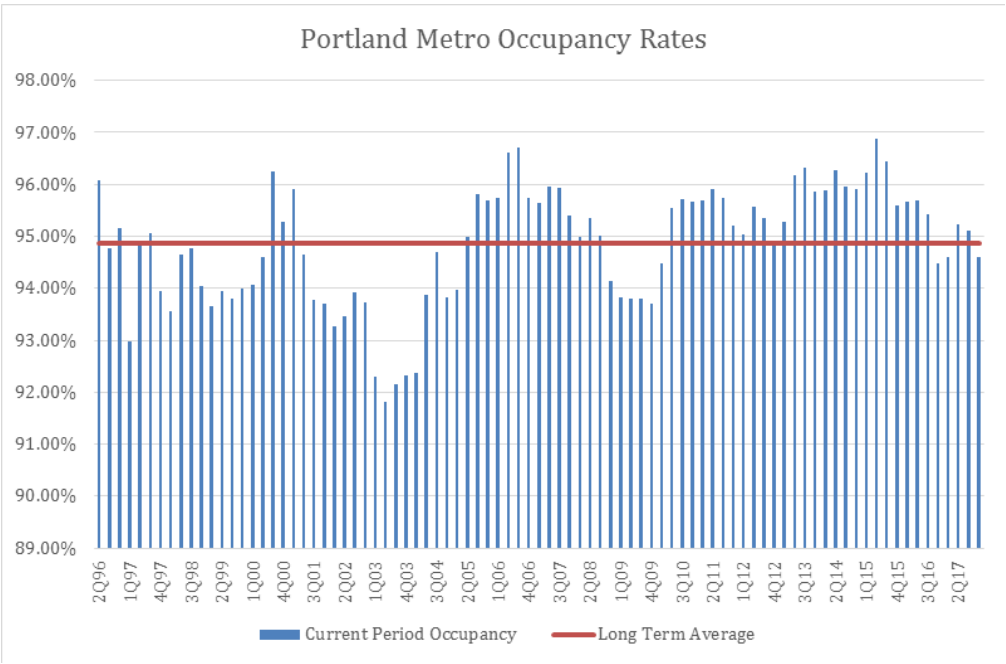
EFFECTIVE RENTS

Comparing apples to apples, the chart below shows rent growth for the second quarter only since 1996. This puts the second quarter of 2017 almost a full percentage point above the long term average of 2 percent.



OCCUPANCY

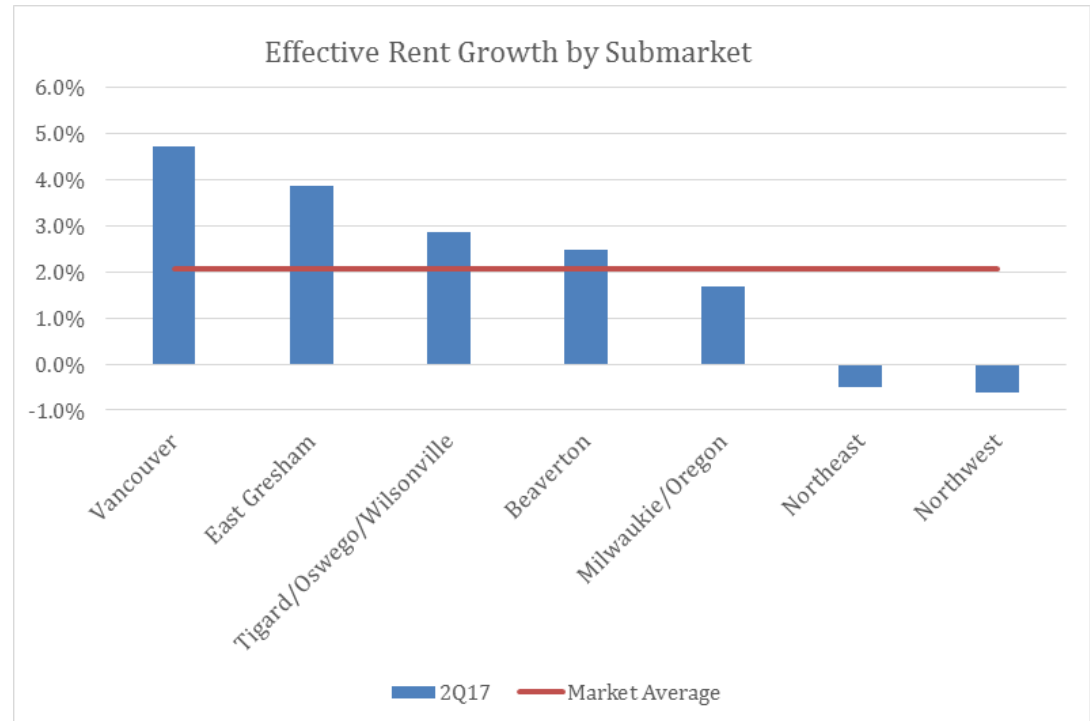
Despite the numerous apartment deliveries over the past year, occupancy rate for the Portland Metro area remains relatively constant at 95 percent which is down 0.3 percent annually and up 0.5 percent quarterly.



OCCUPANCY

Portland is still slightly outperforming the long-term average of 94.85 percent.

Inner Portland, especially the Northwest and Northeast continue to get hammered on rent growth due to the recent wave of deliveries. The suburbs, however, continue to show above average growth especially in Gresham and Vancouver.



CONSTRUCTION AND PIPELINE DELIVERIES

Barry & Associates states that "Permits were issued for 3,410 units issued through May 2017. On an annualized basis, this equates to 8,184 units, which would be the busiest year since the 1970's."

This has caused many to wonder whether Portland is currently over-building. The fact is we can measure permits, deliveries, and past absorption. But future absorption is unknown.

Looking deeper into the delivery pipeline for 2017, the Northeast and Northwest will account for well over half of the years new apartment supply. The better question may be "Is Portland over-building specific submarkets while potentially under-building others?"

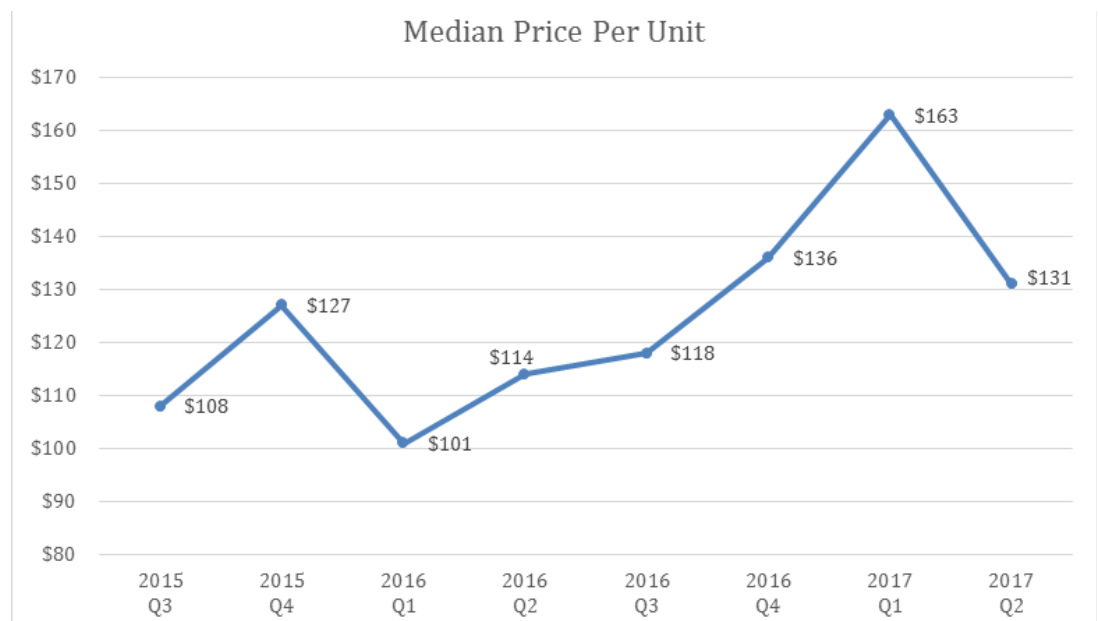
CONSTRUCTION AND PIPELINE DELIVERIES

Pipeline Delivery Schedule					Pipeline Lease Up Trend					
						Units Absorbed	Asking Rent		Effective Rent	
Top Submarkets	2015	2016	2017	Total	Totals	PPM	Per Unit	PSF	Per Unit	PSF
Beaverton	790	1,108	548	2,446	564	11	\$1,571	\$1.91	\$1,508	\$1.84
Milwaukie/Oregon	232		499	731	93	10	\$1,454	\$1.54	\$1,415	\$1.50
Northeast	1,185	1,189	1,178	3,552	846	8	\$1,779	\$2.61	\$1,645	\$2.41
Northwest	770	1,518	1,793	4,081	1048	7	\$2,084	\$2.79	\$1,921	\$2.57
Vancouver	143	394	511	1,048	418	16	\$1,337	\$1.34	\$1,331	\$1.33
Other	112	298	513	923	239	10	\$1,418	\$1.46	\$1,373	\$1.41
Portland-Vancouver-Hillsboro, OR-WA	3,329	4,585	5,055	12,969	3219	8	\$1,837	\$2.38	\$1,714	\$2.22

SALES

According to ABR Winkler Investment Real Estate, median price per unit is way down from \$163 in Q12017 to \$131/unit this quarter possibly due to recent spate of institutional sales coming to an end.

However, annual median price/unit showed increases over last year from \$114/unit to \$131/unit.



MULTIFAMILY MARKET ANALYSIS

SALES

		Jun-17	Jun-16
Median Price Per Sq/Ft	UP	\$156.18	\$127.43
Median Cap Rate	UP	5.67%	5.42%
Dollar Volume	DOWN	\$375,990,718	\$771,276,466
Median Gross Multiplier	UP	14.15	9.76
Median Price Per Unit	UP	\$131,912	\$110,000
Average Price	DOWN	\$5,080,956	\$6,825,455
Average Number of Units	UP	44	43

Barry and Associates reports the following sales trends through June 217

- Nine sales of newer properties, though only one property under 30 units and this was located in Wilsonville. No sales of new apartments in SE or NE PDX.
- Of the 82 total sales, only 4 of these sales were properties built prior to 1940.
- There have been eight sales of properties with 75+ units, and Holland Residential was the seller in four. In 2016, there were 57 sales of properties with 75+ units.

MULTIFAMILY MARKET ANALYSIS

SALES

According to Costar, here is a list of notable sales thus far in 2017:

Property	Submarket	Sale Date	Price	Units	Price Per Unit	Built	Buyer Name
Jory Trail,	Wilsonville	7/20/2017	\$75,000,000	324	\$231,482	2012	Jones Lang LaSalle Income Pro...
Bel Aire Court, 12020 SW Why Worry Ln	Beaverton	7/5/2017	\$9,200,000	67	\$137,313	1959	Trion Properties
Willow Creek Townhomes, 8128 NE 20th St	Vancouver	6/27/2017	\$8,797,953	32	\$274,936	2015	
Stark Street Crossings, 20433 SE Stark St	Troutdale/Gresham	6/8/2017	\$22,825,000	130	\$175,577	2003	Geringer Capital, Domus Multi...
Riverside Villa, 18734 SE River Rd	Damascus	5/31/2017	\$5,000,000	37	\$135,135	1972	Black Helterline, LLP
Fremont Apartments, 1430 NW Pettygrove St	Downtown Portland	5/3/2017	\$22,750,000	150	\$151,667	2012	Lighthouse Partners LLC
11 Marché, 1115 SW Market St	Downtown Portland	4/12/2017	\$21,000,000	62	\$338,710	2016	John L. Evisizor
Tanner Flats, 2004 SW Jefferson St	Northwest Portland	4/5/2017	\$47,500,000	134	\$354,478	2015	Security Properties Inc., Lib...
Tanner Flats, 2004 SW Jefferson St	Northwest Portland	3/23/2017	\$47,500,000	134	\$354,478	2015	Security Properties, Inc.
Collective Portland, 2073 SW Park Ave	Northwest Portland	3/2/2017	\$10,650,000	52	\$204,808	1945	Charles & Harold Isen
Pioneer Vista,	Vancouver	3/1/2017	\$22,000,000	109	\$201,835	2016	Mark C. Frandsen
StoneRidge at Cornell, 14800 NW Cornell Rd	Hillsboro	2/28/2017	\$46,500,000	233	\$199,571	1985	Starwood Capital Group
Silver Oak Apartment Homes, 8701 NE 54th St	Vancouver	2/28/2017	\$35,150,550	204	\$172,307	1989	Starwood Capital Group
Sedona At Bridgecreek, 2220 NE Bridgecreek Ave	Vancouver	2/28/2017	\$31,046,220	200	\$155,231	1989	Starwood Capital Group
Larkspur Place Apartment Homes, 7609 NE Vancouver Mall Dr	Vancouver	2/28/2017	\$18,082,620	100	\$180,926	1994	Starwood Capital Group
Forest Ridge Apartments, 12600 SE River Rd	Damascus	2/17/2017	\$8,350,000	50	\$127,000	1987	Dynasty Realty
Fircrest Manor Apartments, 5835 SW Menlo Dr	Beaverton	2/17/2017	\$5,645,000	59	\$95,678		Allied Argenta
The Ellington Apartments, 1610 NE 66th Ave	Central Northeast	2/6/2017	\$47,000,000	263	\$178,707		Portland Housing Bureau
Muse Apartments, 1315 NW 19th Ave	Northwest Portland	2/1/2017	\$20,150,000	58	\$347,414	2017	Pearlman Properties
Corbett Heights, 3916 SW Corbett Ave	Southwest Portland	2/1/2017	\$15,000,000	48	\$312,500	2015	Pearlman Properties
Northwood Apartments, 8338 N Interstate Ave	North Portland	1/31/2017	\$14,000,000	57	\$245,614	2015	Lighthouse Partners LLC
Village Victorian Apartments, 16290 SW Shaw St	Aloha	1/31/2017	\$5,725,000	44	\$130,114	1980	Paul Ya-Chi & Krista Shiang-M...

NEWS

Investors Management Group Northwest reports that "Landlords have lost a case to overturn Portland's soft rent controls and NO CAUSE provision.

The City of Portland "emergency" measure still stands even though they are "soft" measures:

1. A landlord can give a NO CAUSE, but he must give a min of 90-day notice and be prepared to pay the tenant a "relocation" fee depending on the size of the unit and
2. A landlord can give notice of a rent increase > 10 percent, but he must give 90-day notice and, if the tenant says he can't afford it, be prepared to pay the ten-ant a "relocation" fee depending on the size of the unit.

NEWS

Fees range from \$2900 to \$4500 approximately per tenant. Since the Portland measure is an EMERGENCY, it does have a sunset provision."

House Bill 2004 which according to the Oregon State Legislature website reads "During first nine months of occupancy, prohibits landlord from terminating month-to-month tenancy within 60 days of receiving from tenant request for repairs to correct certain building, health or housing code violation or uninhabitable condition"

The bill narrowly squeaked through the Oregon House and later died in the Senate.

OFFICE MARKET ANALYSIS

RILEY HENDERSON
Portland State University

If the first quarter of 2017 can be characterized as mediocre, the second quarter has lifted the office markets across the board. The big story both nationally and locally is that absorption was back in the black in the second quarter, according to CoStar. Part of the slowdown in the first quarter may have been lingering effects of delayed leasing decisions due to an election year as well as absorption being historically low in the first quarter of every year. However, despite the good news in positive net absorption, CoStar reports the pace of national absorption is below the peak of 100 million square feet in 2015. This slowing in pace is a trend that is expected to continue.

While the economy as a whole is still expanding, it continues to grow at a less than thrilling pace. Early second quarter 2017 reports from the Bureau of Economic Analysis indicate a 2.6 percent increase in gross domestic product. This is an increase of 140 basis points from the first quarter of 2017. Looking into the future, a recessionary environment may be on our horizon. Despite the weakness of our current economic expansion, the fact remains that this is the third-longest economic expansion of the postwar era according to the National Bureau of Economic Research.



Riley Henderson is a Masters of Real Estate Development candidate through a joint program of Portland State University's School of Business Administration and School of Urban Studies and Planning. In addition, Riley is a commercial broker with NAI Elliott specializing in office leasing. He is the 2017 Oregon Association of Realtors Fellowship recipient. Any opinions expressed are those of the author solely and do not represent the opinions of any other person or entity.

Currently, market fundamentals remain positive for the office sector. Rental rates continue to rise with a year-over-year growth of 2.3 percent, vacancy remains stable around 10.3 percent, construction is strong and sales volume is holding steady especially in smaller markets where investors perceive more value, according to CoStar. A trend that is playing out in Portland.

Locally, the Portland metro unemployment rate remains one of the lowest in the nation. This has helped keep the vacancy rate below 10 percent with Colliers reporting a vacancy rate of 8.2 percent in the second quarter of 2017. Both developers and investors are looking to capitalize on the hot Portland market. There is a substantial development pipeline in the works with around 2 million square feet under construction and every quarter as of late seems to produce yet another core asset transaction that sets a high water mark for Portland.

Portland Metro's second quarter

- CBRE highlights Portland's athletic and outdoor industry growth is driving office leasing. Adidas has signed a lease for 80,000 square feet in Montgomery Park and Under Armour's takeover of the former YMCA on Barbur is set to be complete later this summer taking down approximately 73,000 square feet. Tech leasing has been slowing in the marketplace but the fierce competition in the footwear industry has been driving office activity this quarter.
- On the tail of a weak first quarter, Colliers' prediction of a bounce back in positive absorption for the second quarter came to fruition. Colliers is reporting 228,600 square feet of absorption which was particularly strong in the CBD. Rental rates in the outlying submarkets have been rising quickly resulting in tenants seeking less expensive space.
- JLL reports an increase in activity in the Portland office market that should make Portland's real estate professionals feel good about the year after a sluggish first quarter. Second quarter was anchored by the largest lease deal in two years when Autodesk took down the Towne Storage redevelopment in addition to the sale of 1320 Broadway to Credit Suisse for \$541 per square foot. This price set a new high-water mark for Portland on a price per square foot basis. However, JLL points out that uncertainty looms in the near future, with 2 million square feet of office set to deliver in the next year and a half, there is some questions as to whether the pace of office absorption in Portland can keep up with all of the new product.

VACANCY

Vacancy rates across the submarkets and product classes remained relatively stable in the second quarter. Kidder Mathews is reporting the lowest Portland office market vacancy rate at 7.7 percent while CBRE reports the highest vacancy rate at 11.4 percent, which is an 11 basis point increase from the previous quarter. Colliers indicated that vacancy rates have lowered by 3 basis points for a market vacancy of 8.2 percent. From quarter to quarter, vacancy rates seem to be trending up at a very slow pace.

On the suburban office market side, CBRE is reporting an 11.9 percent vacancy rate with Tualatin on the top end of the vacancy rate at 21.6 percent and Wilsonville with the tightest market at 1.1 percent vacancy. The suburban markets have been performing well with Hillsboro seeing a 309 basis point decrease in vacancy according to CBRE.

The takeaway is that vacancy rates continue to remain stable in the Portland Market with a very slight trend upwards.

VACANCY

Table 1: Total Vacancy Rates by Brokerage House and Class, Second Quarter 2017

Brokerage	Total	CBD	CBD Class A	CBD Class B	CBD Class C	Suburban
CBRE	11.4%	12.5%	10.1%	11.8%	20.3%	11.9%
Colliers	8.2%	10.0%	11.6%	9.3%	7.7%	-
JLL	9.8%	9.4%	9.5%	9.9%	8.4%	-
Kidder Mathews	7.7%	9.9%	-	-	-	7.0%

Source: CBRE, Colliers, JLL and Kidder Mathews

RENTAL RATES

All of the large brokerage houses are reporting a rise in rental rates this quarter, which continues the upward growth trend. Rental rates have gone up 7 percent year-over-year, according to CBRE. Downtown Class A office leads the charge with an average rental rate of \$35 per square foot full service with new construction coming in around \$45 a square foot, full service, as reported by JLL. The strong increase in office rents across the market and specifically in the CBD has attracted institutional money as evidenced in the number of large core asset transactions in the CBD. The relative affordability of Portland's rents compared to other major West Coast markets continues to attract tenants looking to relocate or open secondary offices. For the short term, CoStar projects rental rates are expected to continue their upward trajectory and the lack of office development in the suburbs is likely to keep those markets strong in the coming years.

Table 3: Average Direct Asking Rates (\$/sf FSG) by Brokerage House and Class, Second Quarter 2017

Brokerage	Market Average	CBD	CBD Class A	CBD Class B	CBD Class C	Suburban
CBRE	\$26.75	\$31.18	\$34.25	\$30.68	\$26.85	\$23.31
Colliers	\$24.77	\$30.06	\$32.40	\$29.89	\$24.08	-
JLL	\$28.31	\$32.76	\$34.97	\$32.00	\$25.71	-
Kidder Mathews	\$24.56	\$29.55	-	-	-	\$22.21

Source: CBRE, Colliers, JLL and Kidder Mathews

ABSORPTION AND LEASING

After the negative absorption seen in the first quarter of the year, the big story in Portland's office market is that absorption is back on the right track. CBRE reports 137,229 square feet of office was inked and Colliers is reporting 228,600 square feet of positive absorption in the second quarter 2017.

However, it's important to note that despite the positive absorption this quarter; year-over-year quarterly absorption is down 69 percent. This is a somewhat worrying trend as millions of square feet of new office construction is set to deliver in the next year and a large number of those projects are speculative office.

ABSORPTION AND LEASING

Table 4: Net Absorption (in square feet) by Brokerage House and Market Area, Second Quarter 2017

Brokerage	Overall	CBD	Suburban
CBRE	137,229	(16,967)	107,863
Colliers	228,563	203,428	25,135
JLL	145,011	60,766	-
Kidder Mathews	282,334	96,872	190,360

Source: CBRE, Colliers, JLL and Kidder Mathews

Table 5: Net Absorption (in square feet) by Brokerage House and Market Area, Year to Date

Brokerage	Overall	CBD	Suburban
CBRE	77,419	(231,534)	62,683
Colliers	147,618	157,167	(9,549)
JLL	37,621	38,437	-
Kidder Mathews	374,607	111,565	98,016

Source: CBRE, Colliers, JLL and Kidder Mathews

Table 6: Notable Lease Transactions, Second Quarter 2017

Tenant	Building/Address	Market	Square Feet
Autodesk	Towne Storage	Central Eastside	108,750
Adidas	Montgomery Park	NW Close-in	79,657
Wells Fargo	Montgomery Park	NW Close-in	74,935
Farmers insurance	Pacific Parkway #A	Tigard	40,250
Undisclosed	6430 SE Lake Rd	Clackamas/ Milwaukie	17,495
Kittelson & Associates, Inc.	Pacific Center	CBD	16,537

Source: CBRE and Colliers

SALES TRANSACTIONS

Once again, Portland continues to catch the eye of institutional investors in the second quarter. The sale of 1320 SW Broadway took the lead this quarter with a purchase price of \$95 Million, coming out to \$541 on a per square foot basis, a new record for a Portland office building. Only to be surpassed a few months later by the sale of Pearl West, which is an early third quarter transaction but comes in at \$563 per square foot. Both of these sales follow up other notable transaction in the last year including the Pacwest Center, Pioneer Tower, Umpqua Bank Plaza and the Congress Center. The volume and pricing of these assets at such a sustained level is not something the Portland market has experienced before. This is following two years of strong sales volume. According to CoStar, sales volume in 2016 was \$1.2 billion, slightly under the post recessionary sales peak of \$1.3 billion in 2015. Time will tell if 2017 can match those number but with rising

SALES TRANSACTIONS

rents, relatively low vacancy and some strong sales already this year, things are trending in the right direction for the short term and institutional buyers have taken note.

Table 7: Notable Sales Transactions, Second Quarter 2017

Building/ Address	Buyer	Seller	Market	Price	SF	Price/SF
1320 Broadway	Credit Suisse	Urban Renaissance Group & Clarion	CBD	\$95,000,000	176,000	\$539.77
Sunset Corporate Park	Swift	Lone Star Funds	Sunset Corridor	\$24,500,000		\$191.80
AmberGlen Corporate Center	Swift	AmberGlen Properties, LP	Sunset Corridor	\$18,850,000	152,142	\$123.90
Summerlinn Center	S&G Properties NW	BHSUM, LLC	Lake Oswego	\$14,900,000	64,916	\$229.53
The Marquam Building	Bixby Land Co.	Weston	CBD	\$10,800,000	75,000	\$144.00
Parkway Plaza	Winkler Development	Specht	Vancouver Mall	\$7,250,000	52,969	\$136.87

Source: CBRE, Colliers and CoStar

DELIVERIES AND CONSTRUCTION

Construction remains hot for Portland's office market as developers try to take advantage of favorable market conditions. JLL is reporting that there is 1,971,508 square feet under construction at the moment. The big question out there is who will fill the space? "Portland is historically not a strong 'leasing before construction starts' kind of town, with the majority of leasing occurring fairly close to delivery," according to JLL. Colliers is reporting that 28.5 percent of the development pipeline is now preleased which is an 18 percent increase from the first quarter of 2017. A substantial increase but there is still a significant amount of space without a tenant at the moment. Some of the large speculative projects like Field Office by Project^ and Broadway Tower by BPM Real Estate, both set to deliver in 2018 will be barometers of how the speculative office market is fairing in the coming year.

Table 8: Notable Development Projects Under Construction, Second Quarter 2017

Building/Address	Developer	Market	SF	Delivery Date
Knight Cancer Institute	OHSU	South Waterfront	332,000	2019
Field Office	Project^	NW Close-In	330,208	2018
9North	Williams & Dame/ Miller Global	CBD	202,168	2018
Broadway Tower	BPM Real Estate - Office	CBD	177,800	2018
The Leland James	Cairn Pacific / Capstone Partners	NW Close-In	118,000	Q3 2017
Under Armour	Interurban Development	Barbur Blvd/ Capital Hwy	108,698	Q3 2017

Source: Colliers and CoStar

INDUSTRIAL MARKET ANALYSIS

SYDNEY BOWMAN
Portland State University

An all-time low vacancy and a lack of land supply is the central theme of the Portland industrial real estate market as rents continue to rise. Relief of the current tight conditions will be found in scheduled deliveries of new inventory. As the Portland industrial market has enjoyed a robust last quarter, emerging trends and current market conditions will be further explored to see if this trend is to continue.

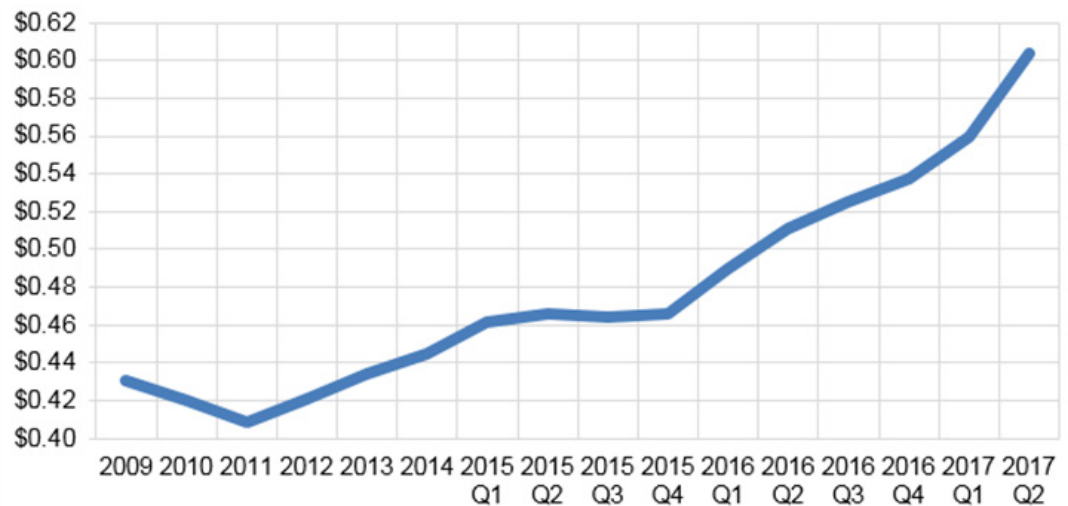


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RENT RATES

Asking shell rental rates on average rose to a new market high of \$0.60 per square foot. This is a new watermark and a \$0.04 increase from the previous quarter. Increasing rental rates are being driven by continued shortage of space for tenants. Figure 1 demonstrates the average increase in industrial rental rates from approximately \$0.56 per square foot per month in the first quarter of 2017 to \$0.60 per square foot in the second quarter of 2017.

Figure 1: Asking Shell Rates – Average of Quarterly Reports

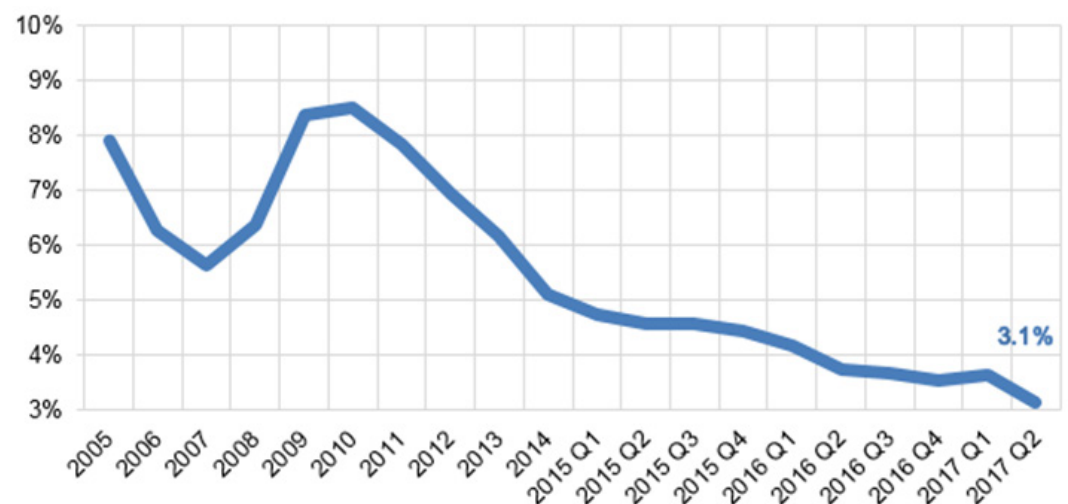


Source: JLL, CBRE, Colliers

VACANCY

Industrial vacancy rates in Portland are at an all-time low due to low inventory. The overall averaged vacancy rate in Portland has dropped to 3.1 percent compared to last quarter's 3.6 percent, which is one of the lowest vacancy rates in the nation, as quoted from CBRE's Portland 2017 Q2 Industrial Market View. According to CBRE's National Logistic Figures, Portland has one of the lowest availability rates (the ratio calculated by available space to total rentable/total available space to total rentable square feet) of industrial property in the nation (see Figure 3) with Orange County, California being the lowest at 3.4 percent and Portland being the fifth lowest at 4.3 percent.

Figure 2: Portland Vacancy – Average of Quarterly Reports



Source: JLL, CBRE, Colliers

VACANCY

Figure 3: Lowest National Availability Rates

Lowest Availability Rates (%)	
Market	Percentage
Orange County	3.4
San Francisco Peninsula	3.5
Los Angeles	3.8
Walnut Creek/I-680 Corridor	3.9
Portland	4.3

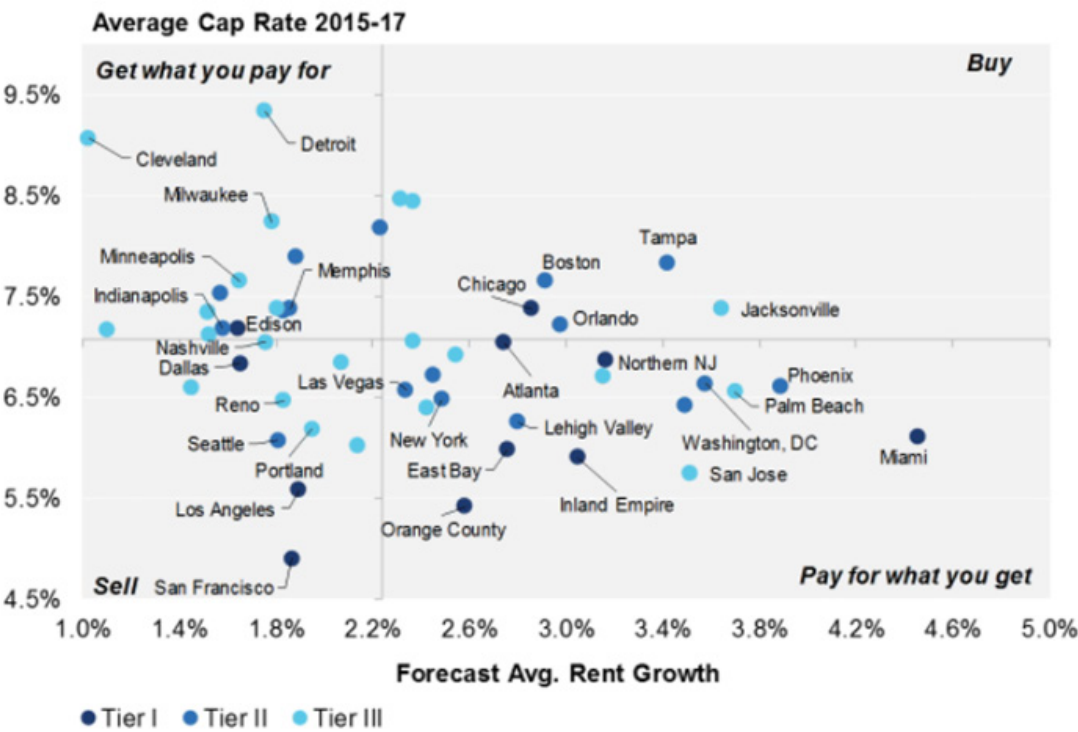
Source: CBRE National Logistic Figures 2017

SALES ACTIVITY

According to the Kidder Matthews second quarter industrial report, the number of Portland investment sales transactions declined in the second quarter with 21 metro industrial assets selling between April and June. One of the most significant sales was the Interstate Crossroads Distribution Center Specht Development sold to WPT for a total of \$56 million (\$114 per square foot).

When purchasing, as shown in the plot map below, the Portland market is considered expensive while expectations for rent growth are modest compared to the majority of other markets tracked.

Figure 4: National Pricing – Cap Rates vs. Rent Growth 2015-2017



Source: Costar Portfolio Strategy, February 2017

ABSORPTION AND DELIVERIES

Absorption is one of the forces driving the low industrial vacancy rates. Overall, leasing activity is up for the year with 2,013,592 square feet absorbed for significant leases (Figure 5). Amazon is by far the largest new construction project within the Portland MSA, scheduled to be delivered in the third quarter of 2018. Though as a single-tenant space the project provides no opportunity for speculative lease.

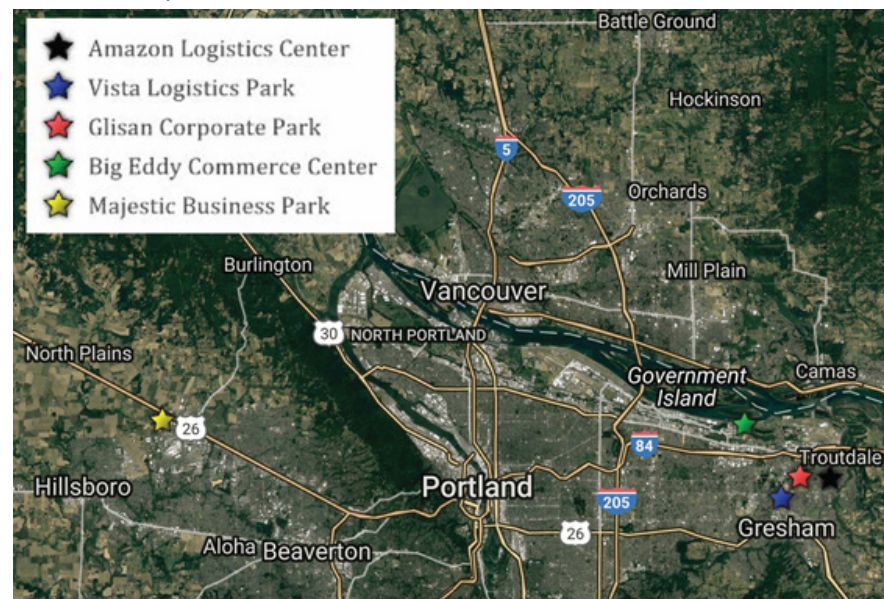
Figure 5: Significant Portland Lease Transactions

Tenant	Transaction Size (SF)	Submarket
Amazon	857,000	Northeast
Sunlight Supply	306,000	Vancouver
Staple's	236,413	Northeast
FXI	185,000	Northeast
Anixter	130,338	Northeast
Wymore Transfer	131,702	Southeast
Owens & Minor	86,771	Southwest
Columbia Distributing	80,368	Northwest
TOTAL	2,013,592	

Source: CBRE Q2 2017 Industrial Marketview & JLL Industrial Insight Q2 2017

A robust demand for new supply is assumed to continue with a total of 24 new projects adding 3,130,471 square feet of new inventory, according to Kidder Mathews, with most projects occurring in the NE quadrant of Portland. These projects include the Amazon Logistic Center in Troutdale (857,000 SF), Vista Logistics Park – Building 3 & 1 in NE Portland (494,464 SF), Glisan Corporate Park in Northeast Portland (364,801 SF), Big Eddy Commerce Center in NE Portland (153,232 SF) and Majestic Brookwood Business Park in Hillsboro (141,630 SF) as reported by CoStar. Figure 6 shows these projects location.

Figure 6: Map of Significant New Industrial Construction



Source: Google

THE AMAZON EFFECT & OTHER EMERGING TRENDS

An industrial trend known as the “Amazon Effect” has seen a shift to regional distribution centers. This phenomena, described in the Colliers, Q1 2017 Industrial Market Outlook as “the deployment of more warehouses in more locations to get products to the consumers quickly.” This trend, also known as “the last mile” is expected to continue in industrial buildings across the nation as e-commerce as a whole experiences 15 percent year-over-year growth (Colliers, Q1 2017 Industrial Market Outlook). This will create pressure to modernize current supply logistics, creating demand for warehouses centrally located as consumers demand faster delivery times.

Other new construction trends in Class A industrial buildings, as noted by a developer for Trammel Crow Company, has found a general shift towards a greater need for additional off-dock trailer and employee parking, as well as, higher clear heights up to 36 - 45 feet. This is in part to greater storage needs during peak seasons that drive demand and a larger employee base.

LOOKING AHEAD

Portland’s industrial market is expected to remain robust with low vacancy and high absorption rates along with many major-tenant lease transactions. Large users are expected to continue looking at the Portland metro and modernizing supply chains will likely increase with consumer spending that would further stimulate business activity.

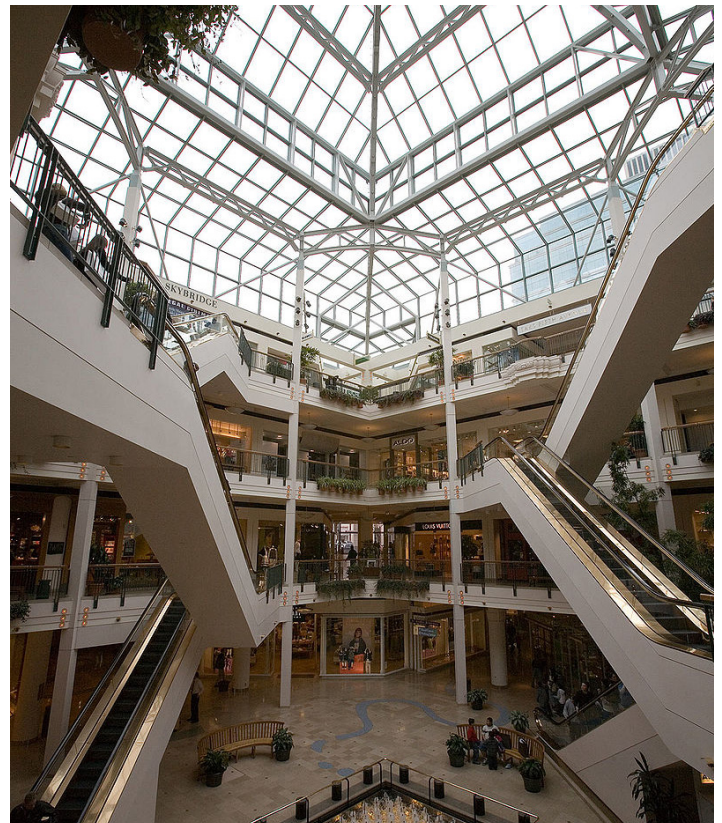
RETAIL MARKET ANALYSIS

RILEY HENDERSON
Portland State University

Despite the doom and gloom warnings of a retail apocalypse, the national story for retail is that things are stable. Nationwide vacancy is at 5.2 percent and rent growth has been holding slightly above 2 percent in the second quarter of 2017, according to CoStar. However signs of a retail market cooling are on the horizon.

CoStar anticipates 20 million square feet of mall space is will go dark this year. This is in addition to the 25 million square feet from Macy's, Sears, and JCPenney that has already closed over the past few years. This has had an impact on the market and will likely push vacancies up further. On the positive side, gym's which were once blacklisted from malls are now being welcomed by landlords and are a great candidate for the big box vacancy. The difficulty with gym leases is that many of the existing leases at a retail center exclude gym operators adding an additional challenge for some landlords who have large vacancies.

The properties that will face the most challenges are those in second and third tier locations. Retailers are looking to shed the underperforming locations and double down on their prime locations as the best course of action against the threat of ecommerce and this strategy appears to be working.



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RETAIL MARKET ANALYSIS

Location as a premium in sales transactions as well. CoStar highlights the pricing disparity between locations by contrasting two General Growth Properties (GGP) that were recently sold. The first property was a premier retail destination known as Fashion Show in Las Vegas. It sold to TIAA-CREF for \$1.25 billion at a 3.9 percent cap rate which equates to \$1,316 a square foot. Compare this to the sale of Newgate Mall in Orem, UT. A C class mall also owned by GGP that sold for \$70 million at an 8.9 percent cap rate which equates to \$103 a square foot. The property with a premier location sold at a market premium while the second tier mall sold for a discount. This is a prime example of how properties with irreplaceable locations will continue to outshine their competitors and retain tenants compared to properties that are in less desirable markets.

The retail development pipeline nationally is expected to be about 60 million square feet in 2017, which compared to the 2006 development pipeline of 170 million square feet is significantly less. This should help buffer the negative effects of a downturn on the retail industry.

The other major headline in retail during the second quarter of 2017 was the announcement that Amazon made an offer to purchase Whole Foods. This sent shockwaves through the grocery industry.

Closer to home, the strong regional economy has continued to keep the Portland retail market ahead of the nation. According to The Bureau of Labor Statistics, Oregon's unemployment rate was 3.7 percent in June of this year. Oregon continues to see a strong in-migration and job growth across a variety of industries, all favorable factors to keep Portland's retail market strong.

VACANCY

The Portland retail market experienced a strong 2017 second quarter that was well ahead of the national average. The market wide vacancy rate stayed steady at 4.1 percent according to Kidder Mathews. CoStar reported a vacancy rate of 4.4 percent which is the tightest vacancy rate since 2005. However, the Portland market hasn't been immune to some of the large retail closings that have hit certain properties hard nationwide. Notably, Macy's closed their flagship downtown store and Lloyd Center continues to operate without one of their major anchor tenants after the loss of Nordstrom's. These large vacancies have hurt these properties but the Portland market has by and large been insulated from many of these closings and not allowing them to affect the in-line tenants keeping vacancy rates low.

Table 1: Portland Retail Vacancies by Submarket, Second Quarter 2017

Submarket	Vacancy Rate
CBD	8.9%
Clark County/ Vancouver	5.2%
I-5 Corridor	5.3%
Lloyd District	4.6%
Northeast	3.1%
Northwest	3.0%
Southeast	3.4%
Southwest	4.0%
Sunset Corridor	2.2%
Total	4.1%

Source: Kidder Mathews

VACANCY

Table 2: Portland Retail Vacancies by Product Type, Second Quarter 2017

Property Type	Vacancy Rate
Malls	3.3%
Power Centers	3.9%
Shopping Centers	6.5%
Specialty	0.0%
General Retail	2.5%

Source: Kidder Mathews

ABSORPTION AND LEASING

The Portland market experienced a total of 234,871 square feet of positive net absorption in the quarter according to Kidder Mathews data. There was a fair amount of larger leases inked this quarter including a Hobby Lobby taking down 45,121 square feet of the former Sports Authority in Clackamas. Target took down 32,100 square feet at the former AMF Bowling location and three locations of BFit gym opened taking down a combined total of 61,000 square feet. The activity seen in the suburban submarkets continues to make it the strongest performing retail area in terms of positive net absorption and vacancy rates.

Table 3: Portland Retail Absorption, Second Quarter 2017 and YTD.

Submarket	Q2 2017 Net Absorption	YTD Net Absorption
CBD	(174,414)	(189,396)
Clark County/ Vancouver	75,092	(6,786)
I-5 Corridor	65,941	38,869
Lloyd District	(18,303)	(16,366)
Northeast	44,079	109,759
Northwest	(4,281)	3,613
Southeast	125,806	186,799
Southwest	31,158	3,925
Sunset Corridor	85,583	117,057
Total	234,871	246,948

Source: Kidder Mathews

RENTAL RATES

Rental rate growth market wide has once again surpassed the national average. Rental rates have been growing at an average of 6.2 percent year-over-year compared to the 2 percent growth on national level. Properties in the CBD are quoting an average of \$25 a square foot on a triple net (NNN) basis while market wide rents averages around \$19.05 NNN, reports Kidder Mathews. Despite the hot growth in rental rates, Portland is still well below other West Coast markets, driving investors to seek value in Portland. CoStar indicates much of the rent growth can be attributed to the low vacancies in the market. As some new projects get out of the ground and are delivered rent growth may slow to some degree.

DELIVERIES AND CONSTRUCTION

In response to the tight vacancies and growing rents, construction has increased slightly and is expected to remain near current levels of supply. Kidder Mathews highlights that there is 317,943 square feet under construction spread across 13 projects. A substantial amount of that is taken up by the expansion of Cedar Hills Crossing which won't do much to alleviate the lack of retail space due to a bulk of the space being taken up by Sunset Lanes and a health center. Additionally there are a number of single tenant developments under construction that accounts for a significant amount of current space under construction.

All in all, a total of thirteen projects were delivered in the second quarter of 2017 totaling 191,053 square feet of retail space. The most notable delivery this quarter was the Hazel Dell Marketplace in Vancouver which is a new community center anchored by Marshalls. Both new deliveries and future supply are expected to be taken down quickly in a market with such a low vacancy rate and little room for expansion or relocation.

Table 4: Notable Retail Sales Transactions, Second Quarter 2017

Building/Address	Market	SF	Delivery Year
Cedar Hills Crossing Community Center	North Beaverton	128,652	2018
The Dahlia	SE Outlying	56,800	2018
Restoration Hardware	NW Close-In	36,000	2017
24 Hour Fitness	Clackamas	38,000	2017

Source: CoStar and Kidder Mathews

Table 5: Notable Retail Sales Transactions, Second Quarter 2017

Building/Address	Buyer	Market	Price	SF	Price/SF
Jantzen Beach Super Center	Kimco Realty Corporation	Hayden Island		747,000	\$176.00
Division Center	Retail Opportunity Investments Corp.	Mall 205	\$33,000,000	122,000	\$270.00
Southgate Shopping Center	Kornwasser Realty Advisors	Clackamas	\$11,650,000	50,862	\$229.00

Source: CoStar and Kidder Mathews

SALES TRANSACTIONS

At the halfway point of the year, sales volume is expected to be slightly lower in 2017 when compared to last year's volume which topped \$500 million in transactions. So far the bulk of transactions in 2017 have been from a smaller, but high priced group of sales. In the second quarter Kimco Realty Corporation purchased the 747,000 square foot Jantzen Beach Center for \$131.8 million or \$176 per square foot. This was the largest transaction of the quarter. Behind that was the sale of the 122,000 square foot Division Center which sold to Retail Opportunity Investment Corp. for \$33 million or \$270 a square foot. Kidder Mathews reports that the average price per square foot was \$320 this quarter. The result of the increase in price per square foot came from single tenant properties occupied by recognized operators trading at below 6 percent cap rates. In the short term Portland has the right market fundamentals to continue to attract institutional investors looking for value when compared to other major West Coast markets.

